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EDITORIAL

A Budget Director's "Thought For Today".

Many a young chap has trouble budgeting his marriage. . . . but I wonder if some of us budgeteers don't have trouble marrying our budgets?

Most of us try hard to create complete budget programs in our companies covering all phases of operation and sometimes investment also. In the course of this we often find budgets that have been set up to cover particular parts of the company's operations. These are usually effective as control and planning instruments.

Obviously, if we are to be successful in creating an over-all plan for the use of management these plans must be included. The problem is to do this, at the same time keeping those who build the smaller budgets as friends and as supporters of our over-all program.

Usually, the group responsible for such a small budget is proud of it. He has recognized the need for a thought-out plan expressing figures and has found it useful in his own work and in dealing with his boss. So, if we simply announce that he is now to fall into the pattern that we are creating for the company without any recognition of the work he has already done, we are very likely to start hurting feelings. If it is at all possible, we should try to retain as many of the characteristics of the older small plan in the newer large one. We may have to change the timing and possibly we may have to make adjustments of the units that are used and – most important – we will have to introduce the element of administration from a higher level.

To do this and still keep the originator of the old budget as a friend is one of the most important phases of the "selling" that we budget people have to do all the time. ——— (Contributed . . . Anonymously).

"ACTING PRESIDENT" IN CHARGE

Mr. E. G. (Buck) Mauck, our national president, has received a temporary assignment with his firm (Eli Lilly Co., Indianapolis) that is keeping him away from his office for a couple of months. During this period Mr. W. D. (Bill) McGuire, first vice-president, is serving as "acting president" in handling affairs of the national organization, NSBB.

PLAN AHEAD

THE PHILOSOPHY OF BUDGETING

By: F. W. Anderson

Manager of Budgets and Accounting, Brush Electronics Company, Cleveland, Ohio

If a Budget is an outline of a plan to make profit, there are a number of general concepts that must be clearly defined for all concerned, so the one common objective is not obscured. The Philosophy of Budgeting is intended to do just that – define the method so that the Plan becomes a cooperative effort, and the goal becomes the common objective.

I have divided the presentation of the budget activity at Brush into two broad categories. These are:

1. The general concept of a budgetary program.
2. The Brush budgetary program.

I intend to devote the majority of this article to the Brush program, however, I feel the time spent on some of the general concepts would be beneficial if only for information.

I chuckle every now and then as I look back to a night in 1952 when I told some friends I had accepted a job as assistant budget director at Brush. The first question I was asked was, what kind of brushes do they make. Secondly I was asked if the job was in the budget loan department?

This situation is a good example of the misconception many people have of budgets.

Until recent years, one of the budget concepts generally thought of, was in relation to the various agencies of the government, the household budget and of course budget loans. The general interpretation from the outside, was one of restriction. Actually this interpretation was somewhat justified. You picked up the morning paper with headlines "Defense Budget Slashed", what else could you think?

Could this possibly be a result of a never ending cycle of:

1. Analyzing the situation.
2. Forecasting the probable course of events
3. Planning the method of action.
4. Organization and coordination of the plan.
5. Acting on the plan.
6. Control of the plan.
7. Evaluating the results.

and then re-analyzing the situation, and revising, if necessary, the probable course of events and so on thru the cycle?

Applying logic to the "Defense Budget Slash" I believe you would agree that this could have resulted from this never-ending cycle. Stop and think, maybe it was an overall planning program that caused the restriction.

DEFINITION OF BUDGET TERMS

Before discussing some of the general concepts of a budgetary program, it would be well to define some of the terms used in budgetary work.

1. A BUDGET is an operating plan expressed in dollars and broken down by the areas that are responsible for producing the income and spending the money. The approved budget becomes a yardstick for measuring actual operating results.
2. A FORECAST for all practical purposes is the same as a budget, however, one distinction is sometimes made i.e., after approval, a forecast becomes a budget.
3. BUDGETARY CONTROL is the managerial control over a company's operations thru use of budgets.
4. PROFIT PLANNING is the management activity of establishing profit goals and planning how to achieve those goals. Profit and financial planning are the planning side of a budgetary program.
5. A BUDGET ALLOWANCE is the expense allowed at the actual level of production. It is commonly expressed as the product of the standard allowed hours and the hourly budget rate for such hours.
6. A STANDARD COST is a predetermined cost of making a product or rendering a service based on an engineering study or other yardsticks. A BUDGETED COST is also a predetermined cost and therefore is essentially the same.

The basic objectives of a budgetary program are generally:

1. To establish profit objectives of the business.
2. To aid in ensuring coordination of company activities.
3. To provide a yardstick for control of operations.
4. To provide a yardstick for measuring executive performance.

The techniques used to arrive at the basic objectives are generally patterned after each individual situation as policies, personalities, etc. vary between companies. These basic objectives of planning and control are attained in every instance. Even the one man business establishes objectives. He also goes thru that eternal cycle of analyzing, forecasting, planning, controlling and evaluating. It may not be on a formal basis but it is done, or success is not achieved.

BUDGET IS "PLANNING"

It is apparent than an effective budgetary program is built around planning, not only what to do if things work out as planned, but being prepared to change rapidly and effectively if things work out differently from the plan.

The control of the plan, through review of various types of variance reports simply provides a means whereby management can keep the "strays" from wandering off the narrow road of planned operations.

The overall plan of a company is a series of inter-related and closely co-ordinated plans converted into budgets and ties directly into the balance sheet and profit and loss statement.

The accompanying flow chart (Exhibit I) shows this inter-relationship.

An effective budgetary program incorporates:

1. Defined Management objectives regarding
   a. Facilities
   b. Products
   c. Pricing
   d. All other major areas of the company's activities.
      1. Distribution
      2. Etc.
2. A complete working plan, fully coordinated

3. Clearly defined responsibilities
4. A single chart of accounts
5. Control by exception
6. Planning on a flexible and practical basis
7. Fair measurement of performance
8. Speed in reporting results.

Budgetary planning and control is a continuous process. As management reviews results against plan and recognizes and analyzes variances, decisions are continuously made - perhaps to do nothing, or to do nothing yet. But this means that management has been alerted and guiding the progress of the company into the future.

STARTING THE BUDGET PROGRAM

It was decided in 1952 that the Finance Division would install a complete budgetary program. They appointed a Budget Director and the program started.

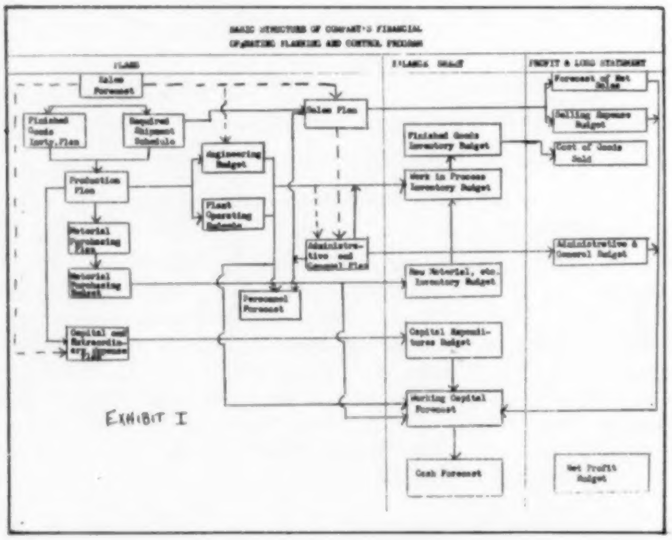


EXHIBIT I

It was decided that the budget organization should be set up on a staff basis with the responsibility of supervising, developing and installing the company's budgetary program and reporting on the results. Since the budget activity is a strict staff activity, we only do the budget work that cannot be done elsewhere in the company.

As a result, the Industrial Engineering group prepares the budgets for the production departments, the staff assistant to the General Sales Manager prepares the sales budgets and my staff aids or prepares the budgets for the remaining areas. One of our biggest jobs is to make sure that all budgets conform to the overall program.

Since the budget activity is on a staff basis, each area of responsibility basically sets their own standards of measurement which lends itself to great effectiveness.

The scope of our activity is far reaching as it has its effect on all phases of operations, sales, manufacturing, personnel and finance.

With the organizational pattern and the resulting lines of authority established, we were able to continue laying the foundation for our budgetary program at Brush. We established logical burden centers, revised our chart of accounts, changed the accounting system to clarify the accounting by responsibility and revised our method of reporting to conform with these changes.

After these changes were made we were able to outline our budgetary program.

It was decided that the following items would provide a sufficient basis for control and management planning on efficient and effective basis.

BRUSH BUDGET REQUIREMENTS

1. Balance Sheet
2. Cash
3. Working Capital
4. Expenditures for Fixed Assets
5. Profit and Loss
6. Net sales by Product Line
7. Sales by Major Customer
8. Production Capacity
9. Personnel
10. Capital, Extraordinary and Tooling Expense
11. Operating Expense Budgets for all cost centers
12. Advertising, Sales Promotion and Shows and Exhibit Expense
13. Production Engineering Projects
14. Inventory including material purchases
15. Training Program
16. Returned Goods
17. Targets for Financial and Operating Ratios
18. Variance Reports

In this program you will find a series of inter-related plans which extend from a minimum of one quarter to a maximum of five quarters. These plans are reviewed and revised accordingly each quarter and projected for the next five quarters. This program provides us with current financial and operating goals toward which we could direct our efforts and without these goals we feel we would be operating in the dark.

INSTALLATION ON INSTALLMENT PLAN

After outlining our budgetary program, the main question was whether or not we were ready for the installation of a complete budgetary program. It was decided not to install a complete program at one time but to tackle it piece by piece.

We have established certain budgetary principles to apply which are uniform throughout our budget structure. The principles are intended to be flexible to handle any problem that presents itself. The principles that we have applied are as follows:

1. A budget to work has to be an individual's own budget, developed by him in such a manner that it will still conform to the overall pattern.
2. The budget has to be prepared in a manner consistent with the chart of accounts and the cost centers and in the same time cycle as the master program.
3. There has to be a method of reporting against the budget on a rapid basis. The report has to be designed in such a manner as to stimulate action.
4. A method has to be provided for an analysis of the budget variances in order that action may be instigated in an intelligent manner.

The budget program is actually super-imposed over all existing accounting policies and procedures and incorporates management thinking on a projected basis.

At Brush we use three types of budgets:

1. A fixed budget which is based on a forecast and is made up in advance.
2. A flexible budget which is made up on the basis of actual operations at the close of a period.
3. A program budget which is based on a forecast and is made up in advance.

Fixed budgets are used in all departments except the actual production departments. They are prepared on a direct estimate of costs to be incurred by months, by account. These budgets take into consideration the plans of the supervisors regarding personnel and related costs in relation to the overall activity of the areas they service. Upon approval of the budgets, the monthly budgets are established for the year.

The flexible budgets used by the production departments are also direct estimates but not of costs to be incurred but of costs to produce a finished product. These budgets establish a unit of measurement by computing budgeted product costs.

MONTHLY BUDGET ALLOWANCES

We set the monthly budget allowance on finished units only. This has the effect of showing unfavorable monthly budget variances during the periods of work in process buildup and of course it has the converse effect if the work in process declines. The variation to date is the significant comparison as it levels out the production cycle.

Program budgets are used for advertising, sales promotion and shows and exhibit expenses, training program, capital and extraordinary expense. In some instances these are of a statistical nature as they duplicate expenditures budgeted elsewhere.

In the actual development of the various budgets we have used the practical approach. We have not disregarded the basic theory behind budgetary control but have convinced ourselves of the practical aspect of the particular problem in our company.

The application of our practical approach can be more easily visualized by examining in detail our approach to the budgeting of engineering costs. First let us review the facts as they exist:

1. Engineering group is composed of four main departments which are Engineering Administrative, Industrial Engineering, Product Design and Drafting and consisting of approximately 110 people.
2. The annual direct cost of these departments is substantial, due to the technical nature of our business. These activities in turn generate other associated costs which add considerably to the total.
3. The activities of the engineering group are divided into two main categories, Services and Projects. Services include the activity normally expected of an engineering group such as technical sales assistance, machine design, product analysis, quality control, etc.

   The work on projects centers around placing new products into production, the improvement of existing products, studies undertaken at customers requests and associated activities.
4. Our engineers had to be sold on the value of the paper work required. Educational work was required regarding our accounting reports and methods. Our chief engineer was constantly trying to justify his expenditures to Management, and this fact considerably aided our task.

With these facts in mind, we started to tackle the budget problem, our prime intent being to give the chief engineer a budget that would mean something to him and help him justify his activities.

THE ENGINEERING BUDGET

We started with the incurred costs of the department estimating these costs for the year. With the departmental costs developed, the next step was to justify this expenditure of money. We asked simply one question, "What activities are these 110 people to be engaged in during the coming year?" This was a logical question to ask an engineer whose thoughts run on a functional basis.

Next we agreed on the logical grouping and sub-division of the activities within his area. Each man was considered separately and his time divided among the various activities which he would be expected to perform during the course of the year. After doing this for each one of of 110 people, we were able to say that we were planning to spend so many hours and corresponding dollars within each activity. With incurred cost already estimated, we were able to arrive at a budgeted departmental overhead rate.

To the costs which are directly related to the engineering people, we added the other costs which would be generated as a result of an engineer being engaged in some activity. We were then able to arrive at a total cost by type of effort for our engineering activity. The detail was summarized in such a manner as to show the net cost to the company for engineering activity.

The budget in this form gave our management something upon which to base their approval. It showed them how much money was expected to be spent during the course of the year. It also showed them the plans of the engineering group, this plan being, where they expected to direct their efforts and, with Management's approval, they had complete justification for their activity.

We have established a standard procedure which outlines the method to be used for accumulating the estimated engineering requirements for the master engineering budget. Our day to day control of our engineering activity is accomplished through the use of labor reports and a monthly report prepared in summary form in the same manner as the budget is prepared.

The summary engineering report is supported by schedules which detail the individual projects in which the engineers are working. Our Management feels this will provide them with the degree of control they desire.

We feel that the budgetary approach used to control our engineering costs although questionable from a theoretical point of view, provides us with the tools we need for planning and control.

I have covered the major aspects of a budgetary program on a general theoretical basis and have reviewed the Brush program in a manner which emphasizes the need for planning in all areas of activity. I have tried to explain in general terms the way in which we tackle our problems.

The never-ending cycle of analyzing, forecasting the problem course of events, planning a method of action, the organization and coordination of the plan, the action, the control of the plan and the evaluation of the results, should be remembered, as this is the backbone of a budget program.

TECHNIQUES IN BUDGETARY FOLLOW-UP

A Panel Discussion Led By Four Budget Executives

Presented at a meeting of the Twin Cities Chapter, National Society for Business Budgeting

All budget men know their work isn't completed with the preparation and presentation of a Budget . . . the "follow up", in many instances, is even more important. Techniques for this important item, and descriptions of actual follow-up methods, are herein outlined.

Budgetary Follow-up and the principles under which this important part of the budget program is applied by four companies was discussed bya panel at a recent Twin Cities Chapter meeting. The variations in operations of the companies represented quite naturally presented a variety of requirements for budgetary follow-up. In spite of the resulting variations in procedures, the objectives and underlying principles followed by these companies were quite similar.

The panel members in this discussion represented the following companies:

Minneapolis-Honeywell Regulator Company – a leading producer of automatic controls and control systems. This company with a growing number of plants manufacturers a wide variety of products which it distributes through domestic and foreign sales and service offices. The company's annual sales are well over two-hundred million.

Minneapolis-Moline – manufacturers of a complete line of farm machinery sold in domestic and foreign markets. Annual sales of this company are approximately seventy million dollars.

Munsingwear, Inc. – A manufacturer of hosiery, sleepwear, women's and girl's lingerie and related lines of men's and women's apparel. Annual sales of Munsingwear, Inc. are in the neighborhood of thirty million dollars.

Red Owl Stores, Inc. – a chain grocery organization which operates three warehouses, three bakeries, a coffee roasting plant and approximately 145 retail stores in nine north-central states. This company also services a large number of independent stores on a wholesale basis in this same trade area. Combined retail and wholesale sales of Red Owl Stores, Inc. are well over one-hundred million dollars a year.

A succinct account of the budget follow-up procedure of each of these companies as presented to the Twin Cities Chapter of the National Society for Business Budgeting is summarized in this article.

PLACING OF RESPONSIBILITY

Perhaps the most generally followed practice referred to by the panel relates to the placing of responsibility with operating departments. This is certainly a basic concept in the operation of a budget program. It is interesting to note the emphasis of companies represented by the panel have placed on the role of the budget department in the correction of problems highlighted by budget analysis

One of the companies represented by the panel increased the effectiveness of its budgeting procedures by departing from its regular accounting practices. Following the premises that (1) all costs are controllable by someone and (2) no one should be held responsible for costs he cannot control, the company has disregarded some accounting conventions required to meet other financial accounting needs. Following this procedure, allocated costs, such as depreciation, plant maintenance, etc., which are not directly controllable by factory operating departments, are not charged to such departments for budget accounting purposes. This company has found such modification of its accounting an effective means of placing more complete responsibility for budget performance with those who can most effectively control costs.

While the budget follow-up plans varied considerably among the four companies represented by this panel, each plan was suited to the requirements of the particular company. In typical fashion, these companies varied in organizational structure and in tendency toward decentralization of control. It is interesting to note the flexibility each of the budget departments has shown in adapting its procedures to its own type of organizational control.

BUDGET FOLLOW-UP AT MINNEAPOLIS-HONEYWELL REGULATOR CO.

By: A.L. Rudell, Chief Cost Accountant

The mechanics and techniques of budget follow-up are dependent upon the philosophies of a budget program. A budget follow-up should be a very dynamic program to motivate action by all levels of management. The purpose of the budget program is to assist management in the administration of their jobs in a very positive way.

The program as carried on by one division of our company which is aimed primarily at the factory operation and embodies the following basic principles:

1. The factory is given credit at the time the products are produced at a standard selling price based on shipments to finished stock.
2. Each department head is held accountable for only the costs which he can actually control.
3. The plans or goals are created by those who will make the expenditures and can best control them.
4. All major expenditures are decided upon before they are incurred.
5. The reports and accounts are designed to be understood by those who can profit by their use. Normal accounting procedures are by-passed in order to make information quickly available.

In establishing this budgetary control program the techniques of follow-up were tried in many ways. Those that proved effective were used. When they proved effective, we developed the reasons why they were effective. The budget follow-up takes two forms -- one of an accounting report along with commentary and several staff meetings in which the budget variances are explained and even more important, action is outlined to prevent recurrence of trouble spots.

This program does not tie out in detail with accounting books, and as such is not restricted by the many limits of financial accounting. Many accounting practices, while very worthwhile and necessary, do not lend themselves to good organizational control.

Every man in operating management, from assistant foremen to the factory manager is actively and con-

stantly working on his expense program. During a recent period in which we would have expected costs to rise (for numerous specific reasons), we have actually accomplished lower costs than expected. We firmly believe that the success of this type of follow-up does not lie in the forms or procedures employed. Rather, the plan has succeeded because those who will use it helped create it. They understand it and they are convinced of its benefits.

WHAT BUDGET FOLLOW-UP MEANS TO US

By Joseph W. Malone
Assistant to Production Control Manager
Minneapolis–Moline Co.

A budget is a plan – or if you like, a collection of plans. Through these plans we hope to reach certain objectives. The most important of these objectives is, of course, a profitable operation.

This objective is important to all concerned; therefore, when we deviate from our plans (or incur budget variations), we must take certain positive corrective measures or follow-up action.

This follow-up action should take place at the source with the person or persons responsible for the individual budget involved. This may be a department foreman or a member of top management. Regardless of the person involved in all follow-up action, we attempt to do the following:

(1) Investigate to determine the "how and why" of the variance.
(2) Correct the present situation and take steps to prevent future variances.
(3) Be helpful; in budget follow-up we have the best chance to show the person responsible, how important his individual budget is to the over-all plan. We try to make him feel important.

In summary then – to follow-up is to investigate and take or cause to be taken the action necessary to reach the desired objective.

This follow-up action, then, is simply a means to an end; to obtain our over-all objective – an efficient and profitable operation.

HOW WE FOLLOW-UP OUR BUDGETS

Our budget follow-up techniques vary with the type of budget involved, with the department with whom the follow-up is being made and with the department making the follow-up. Following are some examples of our various individual budgets and the type of follow-up we make:

Sales Budget – Accounting department statements show budget and actual sales each month in units and dollars. In addition, the budget department issues variance reports monthly in form of Carry-Over statements.

Follow-Up – The home office sales department follows up with sales division the variance reports prepared by the budget department.

Cash Budget – Semi-monthly accounting department reports show actual and budgeted disbursements. Five day accounting reports show budget and actual receipts.

Follow-up – The budget department investigates disbursement variances and explains significant items to management. The cash disbursement budget is also reconciled with the commitment budget.

Commitment Budget – The commitment budget is a budget of anticipated expenditures for materials, supplies, capital assets, etc. based on expected receipt of these items into plants and warehouses.

Weekly reports issued by the budget department show actual commitments, based on purchase orders placed, against budgeted amounts for these items.

Follow-Up – The budget department follows up and investigates variances. In this way, it helps to control future expenditures and thereby establishes control over cash and inventories.

Inventory Budget – Monthly accounting department reports show actual and budgeted inventories of finished goods and other inventories by plant. The budget department prepares monthly detailed analysis showing variances by material, labor, production, sales, etc.

Follow-Up – The budget department follows up with operating departments and plant budget and variations men.

Operating Expense Budget –

Factory Expenses – Prime charge budgets (indirect labor and supplies) vary with direct labor. Other factory expenses are budgeted by factory management. Some items, such an depreciation, are budgeted by the home office budget department in consultation with operating departments.

Follow-Up – By plant budget and variations men. Variations are followed up at the department foreman level. Significant and recurring variations are discussed with plant management.

Sales Expenses – Monthly accounting department statements show budget and actual sales.

Follow-Up – Sales expense follow-up is made by the home office sales department and the internal auditing department.

Administrative Expenses – Follow-up of significant variances is made by the budget department usually by request of the controller.

BUDGET FOLLOW–UP AT MUNSINGWEAR, INC.

By W. E. Dwyer, Assistant Treasurer

Budget follow-up at Munsingwear, Inc. is done on a monthly basis and various techniques are employed. The basic follow-up is accomplished through the presentation of the budgeted figures together with the actual figures on our regular monthly accounting reports. Variances in the figures in this comparison are measured and highlighted through the use of ratios of budgeted to actual figures. An additional use of ratios in made in the comparison of figures to a basic figure such as sales or direct labor to determine the relationship of actual figures to the budgeted figures on this basis.

It is believed necessary to select the significant variances as shown on the reports and to summarize them for the use of top management. An explanation of the cause of the variance is essential to guide management in making the decisions which will enable the company to attain the budgeted objective. As the monthly figures become available the budget executive reviews the statements and selects those variances which are to be commented upon. He then contacts the divisional or departmental head responsible for the variance and determines the reason.

The variances with an explanation thereof are summarized in a written report which is presented at the monthly management meeting. A more effective pres-

entation to management is made through the use of visual exhibits which graphically portray the spread between the budgeted and actual performance. In addition to the use of graphs, another example of the visual aid techniques employed is the placing of total departmental varianceson our organization charts within the respective blocks of the departmental or divisional head responsible.

Follow-up on our sales forecast which is made for a year in advance need be a very comprehensive one in view of the large number of styles made by the company. A general review of the sales forecast has to take into consideration the basic changes which may have occurred since the sales forecast was formulated:

1. Any significant deviation in retailers normal patterns of building or liquidating inventories at specified times of the year.
2. A marked change in the buying habits of the public relative to the types of material used in our garmets.
3. The influence of unseasonable weather.

Actually, a follow-up on the sales forecast is made on a weekly basis through a report showing the current sales forecast, orders, inventory and production. Large deviations between the sales forecast and the combination of inventories and orders will result in an adjusted sales forecast for production purposes.

On our capital expenditures budget, the normal follow-up is supplanted by a control of the expenditure before any commitment is made. In instances where the costs of a capital expenditure will exceed the approval amount, the control is accomplished by showing the expended balance of the amount approved for the project on each invoice as it is submitted to management for approval. When the amount budgeted has been spent, it is necessary to obtain an additional budget for the project before further invoices are approved for payment. Requests for additional appropriations show the reason the original estimate proved inadequate.

PHILOSOPHY OF BUDGET FOLLOW-UP AT RED OWL

By Charles W. Jones, Budget Manager

Ultimately, the basic aim of budget follow-up must be improved operating efficiency and therefore improved profits. We feel that the first consideration in analyzing a budget variance is to isolate the problem, by determining the cause and then the effect on the overall company results. All budget variances, over or under, are not bad for the company, at least in themselves. This usually narrows down to a question of business judgment involving decisions by top level management —— earnest participation by management in this regard is earnest budget follow-up. Although budget variances are represented by dollars on accounting reports, they basically indicate variation from the management's plan for that particular period. Budget follow-up is a positive effort to keep each department and each operation in line with that plan.

Just as a matter of clarifying the various fields of responsibility, we would like to point out the relationship of the Budget Department to the operating departments in regards to budgeted follow-up. At the time of budget preparation, every effort is made to emphasize the point that the budget is the operating departments' budget, not the Budget Department's. The Budget Department is actually the liaison between the operating departments and the various management committees which review and approve the budgets. The Budget Department provides technical assistance in accounting matters such as account coding and classification, distributions, and allocations. They also assist with a preliminary review in an effort to eliminate obvious errors of interpretation or computation and also develop answers for significant differences from historical figures. In this preparation they establish the liaison status referred to above and then retain this status in follow-up procedure at the close of each accounting period.

TECHNIQUE OF BUDGET FOLLOW-UP

In general, our follow-up pattern is personal contact by the Budget Department, with a very detailed written report to the appropriate management committee for action or enforcement. On occasional instances, this detailed report has been oral in an attempt to expedite a solution. Following is a short summary of our procedure for each budget group:

A. Long Range Budget Forecast (currently a 5-year forecast) This budget is established with control figures and contains little, if any, detail. Once a year this budget is reviewed and a comparison made with the current projection. This comparison is made on such points as number of new units in operation, average weekly sales volume, expense ratios, administrative expense, fixture costs, inventory requirements capital requirements, "first load" costs, etc. At the time of this review, a revision is made for the remainder of the program, bringing it in line with our current position and current ideas regarding the future. This revision results in a new Summary of Operations (P & L), Balance Sheet, and Cash Flow (Application of Funds) being projected for the remaining period of the forecast.

B. Annual Budgets – Our annual budgets are completely integrated with our accounting reports showing current and cumulative variances.

1. Balance Sheet Budget – Up to the present time there has been little emphasis on follow-up on this budget. The principal use for this budget has been development of Cash Flow projection as a part of financial surveys and forecasts.

2. Capital Budget – A monthly Capital Budget Report is issued, copies of which go to each person responsible for capital expenditures. This report indicates actual expenditures, commitments (represented by open purchase orders), budget appropriation, and the unexpended balance. This information is indicated by location of store, warehouse, etc. Concerning variances - some latitude is permitted between locations with the major categories of stores, warehouses, etc., but strict adherence is required regarding totals.

3. Operating Budgets – SALES – This is one of the most difficult items on which to apply any effective budgetary follow-up. The Retail Operating Division establishes sales budgets for individual stores based on historical performance, the competitive situation, and sales plans for the period. The uncertainties of the numerous factors involved make follow-up by location somewhat meaningless. A variance, although large for specific location is still insignificant in the chain total. On this item we work with the totals (both wholesale and retail) tracing late (in relation to budget) openings of new stores, early closings of eliminated stores, etc. A weekly sales report prepared by location keeps the operating supervisors currently informed regarding their sales goals.

COST OF SALES – The historical pattern of merchandise costs in relation to sales is the fundamental guide to budgeting this item. Promotional policies, and "mark-up" and "mark-downs" on new store openings are of prime concern on follow-up. Of course this phase must be

(Continued on Page 21)

NEED COST REDUCTION? HERE'S HOW TO START!

By: Kenneth L. Block

Management Consultant, A. T. Kearney & Company, Chicago, Ill.

There are two ways to widen the profit margin--increase income, or decrease expenses. If the first is out of the question, you don't have much choice. . . costs must be reduced, and here's a complete outline of how you can make a thorough survey for starting an effective cost-reduction program.

Do the manufacturing and selling costs of your Company seem to creep upward month by month in spite of your best efforts to control them?

If your experience is similar to most companies, you are worried about the small increases in parts and material costs, across the board increases in wages, fringe benefits, merit increases, and increases in the number of clerical and indirect people. All of these increase the cost of your product and reduce the net profit figure on your profit and loss statement. And since an adequate return on investment is the basic reason for the existence of any company, a reduction in net profit is bound to stir top management to immediate action.

Some few companies have been able to increase prices enough to offset rising costs. But more and more companies are forced to say, "We can't increase prices. We must absorb cost increases. But we don't want to reduce our net profit."

What's the answer? A cost reduction program!

If we can't increase prices, the only way to preserve net profit in the face of rising costs is to reduce other costs by an equivalent amount. And that calls for a cost reduction program!

And here is the key to a successful cost reduction program - set specific goals for each element of cost and then exert all possible effort to reach those goals.

WHICH COSTS TO REDUCE?

"Good idea," you say, "but how do we determine the goals for each of our cost elements? In our company, the sales people say that the production costs are too high and the production people say that the sales costs are too high. How do we decide which costs should be reduced?"

You're right, it's a tough job. But there's no easy way to solve this problem, so let's roll up our sleeves and get started.

First, set up your profit and loss statement with each element of expense expressed as per cent of the sales dollar. Perhaps it looks something like this:

Net Sales		100%
Less: Cost of Goods Sold		
Material	40%	
Direct Labor	15	
Overhead	25	
Total		80%
Gross Profit		20%
Less: Sales Expense	15%	
Administration Expense	5	
Total		20%
Net Profit Before Taxes		0

Something is wrong - no profit. Our job is to try to improve this picture.

Establishing A Net Profit Goal

Let's start by setting a goal for net profit before taxes. Maybe someone will say, "That's foolish! Net profit is a residual. You are starting at the wrong point." From an accounting standpoint that's true. But if we can't make an acceptable percentage of net profit, there is no use staying in business.

So let's determine what percentage of net profit we would like to have and then see whether we can't plan a program to attain this goal.

Now, of course, we have to stay within the realms of reason. So how do we set a realistic goal for net profit?

One of the best methods, of course, is to compare your company with your competitors. But your competitors may have different product lines, they may distribute differently, they may make or buy more of their component parts or sub-contract more or less than you do, or they may lease their facilities or machine tools whereas you may own yours. These are all factors to take into account in comparing and analyzing your net profit figure against theirs. But at least this gives you a start, and if their net profit is very good, you may want to ask yourself some rather searching questions as to why you cannot equal or better their figures.

But perhaps your competitors don't publish their figures, or the figures they do publish may include many product lines besides your own - what then?

Some industries have trade associations gather and tabulate this type of information. They compile the results as averages and publish the results for the benefit of all the members. If you belong to one of these associations, you may receive a lot of help.

If neither of these methods are available, you'll have to work with your own company figures.

ESTABLISHING PROFIT PATTERN

Suppose you plot the percentage of net profit before taxes to sales for the last 20 years or so. Some years are bound to be better than others. You may want to exclude years in which the net profit was heavily influenced by sales of capital assets or greatly influenced by other non-recurring business income. This tells you how well you have done in your best years in the past and perhaps is a good indication of what you might expect to do in the future under favorable circumstances.

That's a pretty big generalization, isn't it? Perhaps your wage rates and material prices have increased a great deal since your best net profit years. But in past years you managed to hold material, labor overhead and selling and administrative expenses in such a relation to your sales that you made a nice profit. And it wasn't all luck either. You planned and worked and struggled and you made a satisfactory return.

That's what we want to do again!

So let's set that average or adjusted net profit figure as our goal and try to figure out ways to reduce our expenses so that we can meet that goal.

Suppose that we believe that we can achieve a goal of

12% net profit before taxes. Our projected percentage profit and loss statement will now look like this:

Net Sales	100%
Less: Manufacturing, Selling, and Administrative Expenses	88%
Net Profit Before Taxes	12%

If we're not successful in planning ways to reduce our costs, we may have to come back and revise our target figure. But first, let's give it the best we've got.

Establishing Cost Goals

Now let's follow the same approach in setting goals for manufacturing, selling and administrative costs, expressing each as a per cent of the sales dollar. We will want to compare our actual performance with our competitor's performance, if possible, or with our best years of past performance in order to set a goal for each of these major categories.

At this point we often won't see how we can achieve our goals, but we know that our competitors are achieving these goals or else we know that we have achieved them in the past and we are determined to find ways to achieve them during the coming years.

Suppose we carry through our previous example and allocate the 88¢ of the sales dollar to manufacturing, selling and administrative expense as follows:

Net Sales		100%
Less: Manufacturing Expense	72%	
Selling Expense	12	
Administrative Expense	4	
Total		88%
Net Profit Before Taxes		12%

A comparison with our actual results for last year is as follows:

	Last Year	Goal
Net Sales	100%	100%
Less: Cost of Goods Sold	80	72
Gross Profit	20	28
Selling and Administrative	20	16
Net Profit Before Taxes	0%	12%

In analyzing competitors' figures or our own past performance, it is obvious that we have to make reductions in all three major categories: manufacturing, selling and administrative costs, although these are not of the same degree of magnitude. In this illustration, the goals set call for a 10% reduction in manufacturing cost, a 20% reduction in selling expense, and a 30% reduction in administrative expense.

So now we are ready to go ahead and work out specific ways to reduce our costs and to achieve our goals.

And remember - our approach should be "let's always assume that we can find a way to accomplish these goals unless someone is able to conclusively prove that we cannot."

Analyzing Individual Accounts

In order to accomplish our goals we must take each item of cost in turn, analyze it in detail, and determine how much it can be reduced without damage to the company. This means that we have to work out specific ways to implement each reduction.

An analysis of the individual accounts making up each major classification of expense will show that the bulk of the total expenditure is concentrated in relatively few accounts. These are the "hot prospects" for cost reduction. Each of these should be checked in detail and exploratory meetings held with staff and operating people to check every possible method and alternative for reducing these specific costs.

Perhaps you can use the "brainstorming" approach. This is a group effort to think up new ways to solve a specific problem. As individuals in the group bring up new ways to reduce a particular cost item, each suggestion is written on the blackboard. All discussion of whether an idea is really good or how it can be implemented is rigidly postponed until all original ideas have been exhausted. Then the group takes each idea in turn and tries to develop ways to implement it. The idea here is to let the imagination of the participants run wild in hopes that original ideas may be forthcoming. But whatever the method used, it will take a lot of analysis and a lot of hard thinking by both line and staff people to work out ways to reduce the individual items of cost.

Selling and Administrative Expenses

Let's try out this approach by working first with selling and administrative expenses. We have previously compared our actual and target percentage figures for these costs. We can convert the percentages to dollars at the proposed level of business for the coming period so we know how many dollars of cost reduction we are working for. So let's go to work and try to accomplish this reduction.

Some of the large items frequently susceptible to analysis and reduction are advertising, market research, sales promotion, sales conventions, and salesmen's traveling expenses. This is not to indicate that these items can always be cut, but oftentimes by balancing costs against realistic appraisals of expected results, optimism is tempered and costs are reduced.

Many times a series of meetings with the people responsible for these functions will disclose ways in which objectives can be met with lesser dollar amounts of expense. It isn't easy. Many times we have to back off and start from another point of view. It takes a prodigious effort by the best people in the company who must be motivated by a driving desire to achieve the results.

Certainly the budget department working alone cannot achieve these results. The whole cost reduction effort must be endorsed by top management and participation by every functional manager is essential if success is to be obtained.

Gross Profit Check

And now for a check. Add your percentages for sales and administrative expenses to net profit before taxes and the result should be your gross profit figure. And gross profit subtracted from net sales gives us the total amount available for manufacturing expenses which include material, labor and burden.

Now we can check this gross profit figure against competitive or industry wide figures. The following table shows some gross profit ratios for companies in various industries. They do not purport to be average or target figures, but they illustrate variations between companies.

Typical Gross Profit Ratios

Meat Packing	9.4
Steel Company	16.6
Sporting Goods Manufacturer	20.8
Aluminum Producer	17.6
Electronic Parts Manufacturer	18.2
Oil Company	17.9
Mechanical Parts Manufacturer	19.5
Typewriter Manufacturer	32.6

Now chances are that you may not be satisfied with these particular gross profit ratios. Maybe you have rea-

son to think that yours should be even better. If so, use the higher figure and try your best to accomplish it.

Of course, we don't want to set the target so high for the operating people that the program becomes clearly unworkable. We must be careful enough in this whole analysis so that when we get through, our projected profit statements are backed up with a whole series of specific ideas as to just how we are going to reduce each element of manufacturing cost.

Now, by knowing the gross profit figure that we are going to "shoot at," we have to make an allocation of the expense dollars between material, labor and burden.

Chances are that when we first look at it and try to divide the total, there won't seem to be enough dollars to go around.

But chances are that before we're through - if we work hard enough, we will be able to effect reductions which will bring our manufacturing costs in line so that we can achieve our projected gross profit, providing our product is priced properly.

So let's tackle each classification of manufacturing cost in turn and see what can be done to improve it.

MATERIAL COST

Suppose we have a look at our material cost.

In many companies this is the most important cost item in the cost of goods sold. Depending upon the product, it may run anywhere from 15¢ to over 50¢ of the sales dollar. Yet many companies will say, "We can't do anything to reduce material cost. We have to pay whatever prices our suppliers ask."

Is this true? Usually not! Purchasing departments are only human and unless "the heat is on," they tend to accept sellers' explanations for higher prices. Result? Your material costs continue to drift upward.

The automobile companies have found out that by constant shopping for better prices and by hammering away to get a cost reduction of a fraction of a cent, they are able to save thousands of dollars each year. No, you are not an automobile company, but chances are you will be surprised if you "go all out" to see what you can do to reduce material costs.

But let's not expend a lot of time and effort on items which have only a small potential for saving. Let's find out where the bulk of our material costs are really concentrated.

Take raw material for example. Suppose we list each kind of raw material purchased during the year and extend the quantity purchased times the price per unit to get a dollar cost for that material purchased during the past year. If we were then to arrange these totals for each raw material purchased from greatest to least, we would probably find that about 20% of the total number of our raw material items accounted for some 80% of the total cost of the material purchased.

These are the items to attack.

Chances are that these items may be steel, aluminum, lumber, paper, chemicals, raw food stuffs, fibre or yarn, etc. You may say that the possibility of price negotiation for this type of item is very limited since the price is set by the larger suppliers and is quoted firm to all customers.

This may be so, but what about extras for extra quality, extra tight tolerances, extra finishing operations, shipping operations, etc.? Suppose you really make the engineering department justify any specs which results in price extras. Some companies have achieved surprising results by doing this.

Similarly, let's analyze purchased parts by following the same procedure. An analysis of these will also disclose that about 20% of the total number of purchased parts are responsibile for some 80% of the total dollar cost of purchased parts. Now here's the place to ring in the engineering department. The design of the product determines the basic cost of the product. Let's turn the engineering department loose on the high value items. Anything that can be done to simplify or standardize parts or to use fewer types of material means savings in our material cost.

Furthermore, parts are usually designed with certain shop processes in mind. So let's ask the question, "Is this the cheapest way to make this part?" If not, we may be able to substitute with good reductions in cost, stampings for machined or forged parts, for example. We might even be able to substitute plastic for steel parts in some cases.

TOLERANCES TOO CLOSE?

And let's not forget that the engineering design also determines the cost of making the part in the shop. Close tolerances and tight fits and fine finishes cost money. Maybe some of these specifications can be loosened - especially on our high value parts. If so, we'll reduce cost and save money.

But now back to the purchasing department. We've done all we can in engineering to standardize and simplify, and now it's up to them. Oftentimes, "shopping" for parts can save as much as 20% to 25% of the cost of many purchase items. It is really surprising the price reductions which are given by suppliers when the "squeeze is on." One manufacturing company managed to absorb across the board price increases in steel and aluminum of 15% and 9% respectively and still reduced their over-all material cost some $17,000 per month by careful shopping.

Another company called in all of its suppliers and explained the need for cost reduction. They asked their suppliers for suggestions as to how the cost of their material might be reduced. A large number of suggestions were rendered as to how designs could be slightly altered or specifications slightly relaxed. This would reduce supplier costs and lead to price reductions to them. But they were even more amazed by the number of suppliers who reduced their price without any change in specifications whatsoever.

The Industrial Engineering Department can also save money in regard to raw material. They can work on the problem in several ways.

First of all, they can analyze whether the proper sizes of sheet steel, bar stock, and lumber are being carried and whether these can be further standardized. They should prepare cutting lists and layouts for getting the maximum amount of raw material out of original sizes.

They should always be alert to possibilities of packaging and palletizing parts and raw material coming from vendors which will reduce handling and storing costs. Perhaps this will reduce the vendor's cost also, and if so, it may be possible to get a price reduction.

One piano company designed a special rack to hold metal plates coming from the foundry. They carefully computed the cost of the racks and the material handling savings which would result in their own plant. They even inquired about - and got - a reduction from the trucking the plates to their plant because of less risk of damage. But they neglected computing the savings to their

supplier, who by using their special racks in his plant, reduced his material handling and shipping expenses. The company should have used this as a wedge to get a price reduction. Unfortunately, the supplier neglected to bring this oversight to their attention!

CAN INVENTORY BE REDUCED?

The Production Control Department can often reduce costs in the shop by reducing the amount of inventory on hand. In many companies it costs 17% to 25% of the value of the inventory to store, insure, pay taxes, move, record and take care of the inventory for one year. Of course, if there are sizable savings, due to quantity discounts on a particular item or proven savings in paper work cost, it may be advisable to purchase the item more infrequently and thus to hold a relatively higher level of inventory on hand. Economic lot formulas show the most economical balance between these factors.

Now does that give you budget directors some ideas as to where to start looking for cost reduction in material costs?

The key is to get the engineering, purchasing and shop people to plan with you as to how they can effect the reductions. This may be tough. They may tell you it can't be done. But if through wheedling, reasoning or coercion, you insist on a well thought out profit improvement program, selling out just•who is responsible for each phase, and checking to see that they are all accomplished, your company will benefit substantially.

Direct Labor Cost

Now let's take a look at the cost of direct labor.

Here is an area which has received more attention than the other two. And possibly with good reason since the potential in this area is usually very promising.

The direct labor costs of many products are declining with increased automation and mechanization. If yours aren't, you'd better take a second look.

How do we proceed? First of all, we ask whether we are using our labor as efficiently as possible.

And how can we determine this? It is possible to measure most direct labor operations and to set a standard time in which the operation should be performed. This is arrived at by careful study of the operation and by trying to better the methods so that the job is done in the easiest and most intelligent manner possible.

The standard time is then set by means of time study, standard data, predetermined times or other techniques. But the important thing is having a measure available so that we know what output we should get for our direct labor expenditure, or conversely, what our direct labor costs should be for our predicted production volume.

Once we have developed standards, we can start collecting information which enables us to judge the performance of our workers against these standards. If you have never used standards in your shop, don't be too surprised at a performance of 50% to 60% when you first start measurement. But now that you know how poor your performance is, you can go to work to improve it by analyzing the reasons for poor performance and correcting each reason in turn.

Again, let's start in the right place. Let's list all of the parts and assemblies which we produce in the shop, list the number of standard hours to complete each of these parts or assemblies and multiply each by the number of parts or assemblies produced in the past year. The result is the number of standard direct labor hours expended for each of these parts and assemblies in the past year.

If we rank these from highest value to lowest, we will find that either because of high production and/or a high number of labor hours per part or assembly, approximately 20% of the number of parts will consume some 80% of the total hours of standard labor expended. The high man-hour parts or assemblies are the place to go to work.

If we watch the daily or weekly labor reports for these particular jobs and investigate the reasons why performance is not better, we may find many things to be corrected.

First of all, our production planning and control department may not be furnishing material at the right time and place or perhaps jobs are not lined up in advance for the direct workers.

Secondly, our foremen may not be planning their work properly so that men are idle in between jobs. Thirdly, the men may not be following a proper method and hence, using more time than he should.

Fourthly, our machines may not be well maintained and may break down during production runs. Or the machine may not hold the tolerances required and hence, a lot of scrap is produced.

Time-consuming to find out the reasons for poor performance?

Sure, but this is the way to get to the trouble spots. It is only by intense personal investigation that we find out the reasons for the poor performance and then develop measures to improve the performance.

MEASURING WORK PERFORMANCE

Some companies measure the performance of individual workers and of departments against standard each day. This gives them an efficiency for the workers and for the department. Worker output is often raised from 50% to 60% to possibly 80% or 85% of standard by correcting the conditions mentioned above and by better supervision. But this is about as high as the averages will usually go with proper standards.

But there is a way to further increase the output of direct labor and to reduce the unit cost of the part. This is to install a wage incentive system. Under a properly installed incentive system, we generally find performance rising to a 115% or 120% average. This represents a direct saving in labor dollars for all of the percentage points between the old performance rate and 100% and no additional unit labor cost for performance over 100%. The workers are happier, too, because they are getting more dollars in their pocket. Of course, better performance also means absorbing the same fixed overhead on a greater number of units with a consequent decrease in the unit overhead cost.

Some companies take the position that their unions won't let them install a wage incentive plan. But other companies who have insisted on the principle of a fair day's work for a fair day's pay, have been quite successful in getting unions to accept a plan which is good for the company and good for the people.

And then what about work simplification programs as a way to reduce direct labor, costs? These programs are aimed at teaching supervisors and workers the principles of motion economy and in getting them to look at their own jobs critically in order to make suggestions for doing their jobs more easily and more quickly. Such a program, if properly carried through and the suggestions investigated, improved and put into effect, often saves a company a great deal of money. One medium sized company saved some $200,000 per year on an effective work simplification program.

(Continued on Page 22)

NATIONAL CONFERENCE COMMITTEE COMPLETES PLANS FOR CLEVELAND CONVENTION

Final plans for the big 1956 National Conference in Cleveland on May 24 and 25 are looked over by the committee of which Carl O. Wessman, extreme left, is general chairman. Next to him, pointing at a proposed poster layout, is Russell O. Ilegness, chairman on arrangements; Leonard G. Duetemeyer, chairman of registration, reception and hospitality; Melvin J. Nagel, originally chairman of the Conference finance committee, who has (since this photo was taken) found it necessary to resign this assignment, and has been succeeded by Mr. Francis J. Brennan, manager of the Budget Department, Central National Bank of Cleveland; Samuel S. Allender, publicity chairman; and (seated), William H. Fleming, convention advisor. They, with virtually the entire membership of the Cleveland Chapter assisting, have been working hard to make the 1956 Conference one of the best in NSBB's history. See you in Cleveland!

CLEVELAND TO BE SCENE OF NSBB'S BIGGEST NATIONAL CONFERENCE IN MAY

What promises to be NSBB's biggest National Conference is all set to get under way in Cleveland on May 24th, opening with a session on Thursday morning at 10:00 a.m., and continuing for two days to adjournment Friday afternoon, May 25th. "Advance interest in the Conference, from the largest membership in NSBB history, assures us of a record attendance", says Carl O. Wessman, the general chairman.

This year's Conference theme is "Operation - Profit", and will feature outstanding speakers in the field of budgeting. This year the NSBB National Conference will present something new and different -- a series of budgetary subjects will be taken up for discussion in seminar-like groups on Thursday afternoon, May 23, giving each person a chance to select the group in which he is most interested, and attend the group discussion.

The welfare of the ladies has not been overlooked, either; Mr. Wessman and his committees have arranged entertainment for your wife, on each day of the Conference, and they urge you to make this trip with the wife, and children too if you wish.

Here is an outline of the Conference program, (as of press time) additional data, along with registration forms, goes to each member in every chapter direct from the conference committee in Cleveland.

1956 NATIONAL CONFERENCE PROGRAM

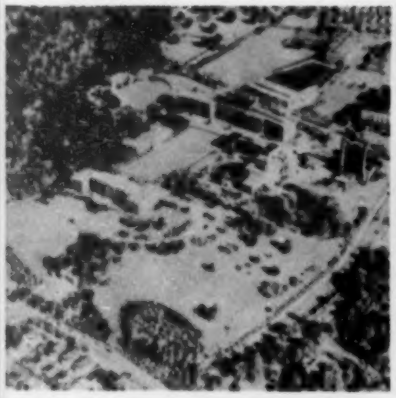
Thursday		
Morning	10:00 - 12:00	ORGANIZATION FOR PROFIT (Two Speakers)
Luncheon	12:30	(Luncheon Speaker)
Afternoon	2:30 - 4:30	FUNCTIONAL MEETINGS. A series of budgetary subjects has been selected to be discussed in seminar-like groups, meeting concurrently. Each registrant may choose to attend the group discussion of most interest. Groups will be led by men expert in the subject.
	4:30 - 5:30	ANNUAL MEETING
	5:45 - 7:30	SOCIAL HOUR (Registrants and wives)
Friday		
Morning	9:30 - 12:00	DEVELOPING AND MEASURING PROFIT OBJECTIVES. A panel of experts will discuss this topic and answer questions from the floor.
Luncheon	12:30	(Luncheon speaker)
Afternoon	2:45 - 3:45	THE ECONOMIC OUTLOOK. A prominent economist will survey the business climate.
	3:45	Adjournment

Two of the principal speakers at the Conference are Mr. Eliot Janeway, who addresses the Conference on Friday afternoon on "The Economic Outlook for the Last Half of 1956", and Henry M. Spitshoff, who speaks Thursday morning on the subject of "Effective Organization". Other prominent speakers are on the program.

The following pages show a few highlights of Cleveland, our 1956 Conference City. The meetings will be held in the Hotel Cleveland, which is centrally located, and the conference program allows everyone ample opportunity to visit places of interest in the city, and enjoy some of its many facilities provided for visitors.

Added to this is the heartfelt welcome extended by the Cleveland NSBB chapter, the conference committees, and your national NSBB officers. . . "See You in Cleveland!"

Cleveland offers much of interest for conver



Nela Park . . . where you'll find all the marvels of modern day lighting and uses of electricity exhibited in fascinating demonstrations.

Department stores . . . always an important visitor attraction. Cleveland's finest, augmented with National chains . . . presenting a complete selection of merchandise.

Euclid and Superior Avenues meet at the Public Square with nationally famous hotels, shops, department stores and restaurants. Cleveland is Ohio's largest city and the nation's seventh.

The University Hospitals group . . . an outstanding medical center, containing medical schools, libraries, research buildings and hospitals.

Sports Ar
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SPORTS • RECREATION • ENTERTAINMENT

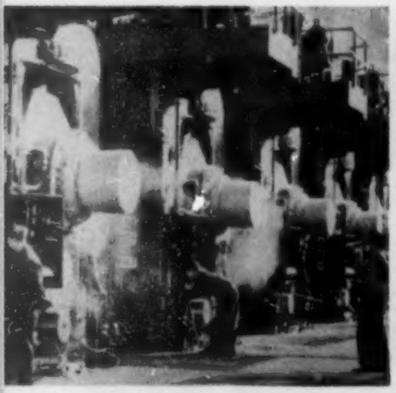
Cleveland Browns . . . the country's foremost professional football team . . . football at its best and a popular visitor attraction.

Big League Baseball . . . Cleveland is the home of the Indians in the American League . . . the birthplace of organized amateur baseball.

Scattered throughout the city, are many excellent restaurants and night clubs offering dancing, floor shows and entertainment.

Horse Racing . . . both running and trotting . . . Cleveland offers a full season of fine racing events at its several well-maintained tracks.

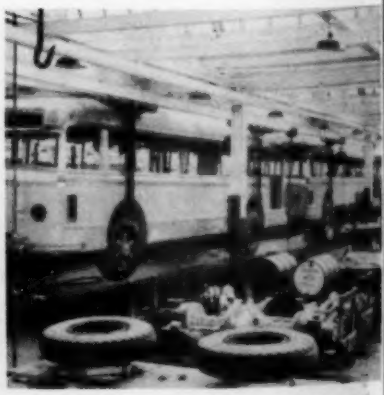
CLEVELAND . . . CITY OF DIVERSIFIED INDUSTRIES



The world's largest, fastest, "hot and cold" continuous strip mill at one of Cleveland's large steel mills.

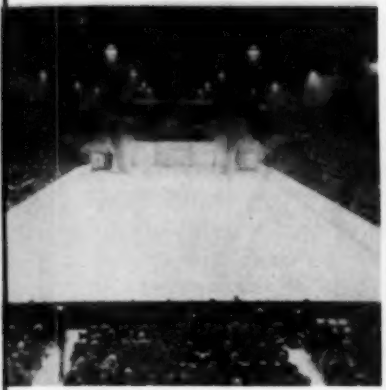
Cleveland's lakefront teems with activity . . . great freighters bring down iron ore from the north, take back coal and other cargoes.

Paint "in the making" in one of the large plants that have made Cleveland famous as a center for the paint and varnish industry.



Motor trucks and buses, made in Cleveland, haul freight and transport passengers in every country in the world.

nvention visitors who like to get around

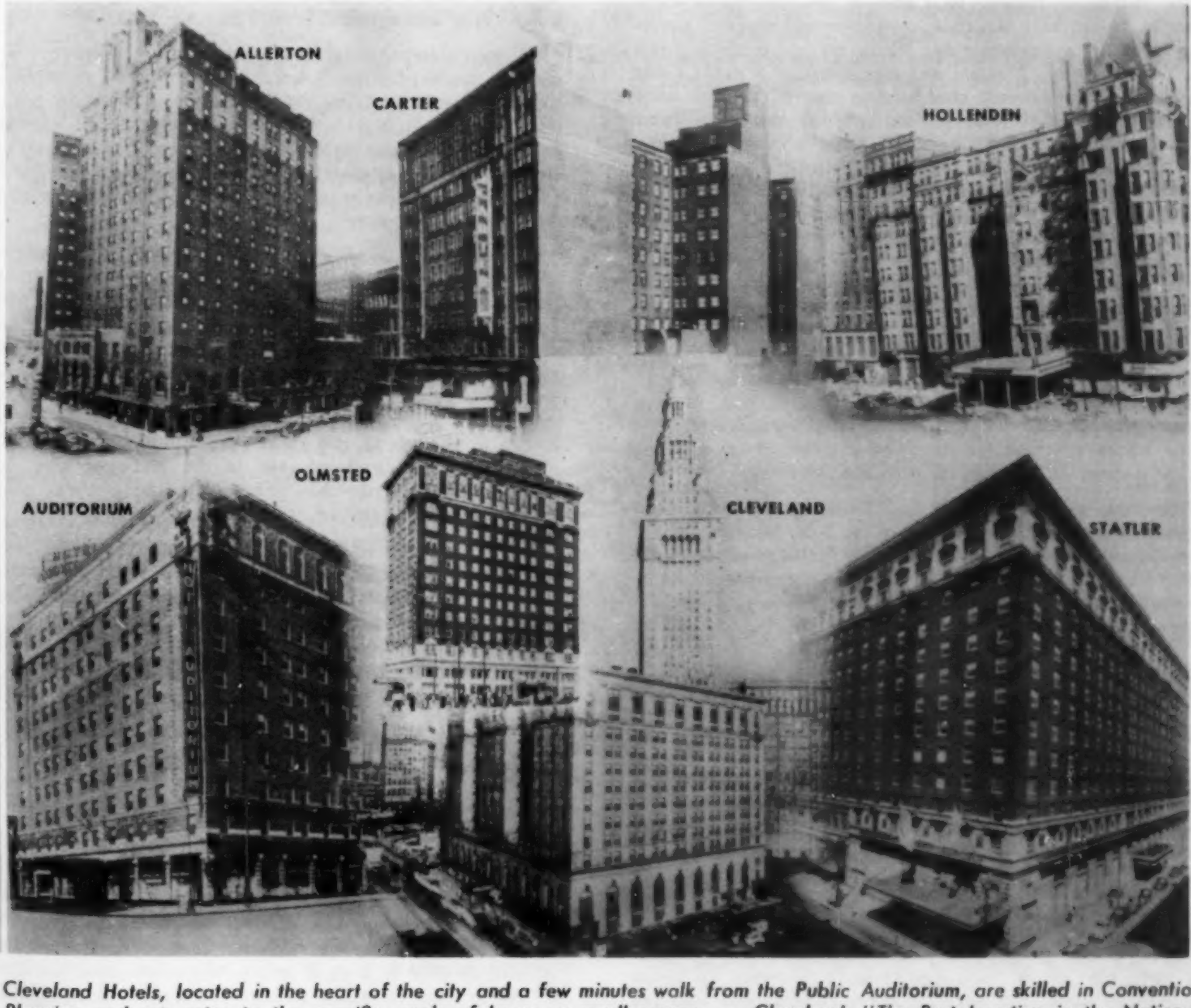


Sports Arena . . . home of the Barons, Cleveland's hockey champions . . . a versatile plant adapted to accommodate basketball, track meets, rodeos . . . virtually every kind of show.

Museum of Art, and the Fine Arts Garden . . . considered to be among the outstanding art museums in the country.

Severance Hall . . . palatial and artistic home of the nationally-known Cleveland Symphony Orchestra.

The Public Auditorium . . . America's most serviceable auditorium, and one of the largest. Located in the heart of the downtown district.



Cleveland Hotels, located in the heart of the city and a few minutes walk from the Public Auditorium, are skilled in Convention Planning and can cater to the specific needs of large or small groups . . . Cleveland, "The Best Location in the Nation."

WHAT MANAGEMENT WANTS FROM A BUDGET

By: Henry G. Lykken

Division Controller, Minneapolis-Honeywell Regulator Co., Minn.

Logically enough, to answer this question you must first define "management". And once defined, it's almost elementary to determine what "management", in the full meaning of the word, expects from a Budget. If your management hasn't been identified, why not track it down . . . you may be surprised who you find.

Whenever budget directors or budgeteers gather round a table, someone is almost always sure to open up on a variation of the question, "What does management want from a budget?"

In trying to find a suitable answer, we can readily agree that the companies for which we work are different and that the budgets and budgeting must be suited to the various needs of the individual company. I think that if we will step back for a minute, take a good look at the way each of us handles his own budget program, question what we are doing, ask who are we preparing budgets for and how that person is going to use the budget, and what benefit we expect the budget to give us, we might look at budgets in a new way and see them through new eyes.

First of all, who is 'management'? My first years in business were spent as a management trainee in a large corporation. I think I learned something about 'management' which many people overlook. It's a vague word and means different things to each of us. In those days someone would tell me that 'management' wanted something done in a certain way. While trying to track down that 'management', I would ask questions of a great many people, only to discover that no one wanted the job done that particular way. That led me to start asking, "Whom do you mean by 'management'?" Most of the time they couldn't tell me; but just as often I was given a certain man's name, I would go to him and ask if my assignment was really what he wanted. The chances were good that he would tell me that he wanted something entirely different. It is now my habit to start asking questions when someone says, "You've got to do it this way because 'management' wants it this way."

NO ONE PERSON IS "MANAGEMENT"

Most of us habitually define management as the people above us--our bosses. A worker thinks of his foreman as management; the foreman thinks of the superintendent or the works manager as management; so on up the line until you come to the president of the company.

From time to time I've talked to the president of our company about a job I was doing for him. He also would show himself concerned for what the 'management' would want him to do. I'd wonder, "If you aren't management, who in the world is?" He would be thinking of the directors and the chairman of the board, of course, and he felt as much responsibility to 'management'--even more, perhaps--than you or I. The directors, in turn, probably feel that the stockholders are a kind of 'management', too.

This brings me to the point of my definition. When we talk or think about management as if it were a flesh and blood person like you and me, we're fooling ourselves. There's no man or group of a dozen men who are 'management' in the sense of being a person. We must break the habit of thinking as if there were.

The truth is that there are people on a number of levels in any enterprise who do the work of managing. You are 'management' as much as I or the president of a company. If you supervise people, they look at you as management. You have the job of budgeting; that is, drawing up budgets, issuing them, and policing them. The people who get your budgets, follow them, and ask you questions about them, look upon you as management because budgeting is part of the profession of managing. You do part of the work of managing; therefore, in the eyes of all of these people who have been mentioned, you are management.

Your answer may be, "Let's be sensible. I'm not as much management as the president of my company."

You are ignoring a simple fact. Your jobs are the same in kind. They are the kind of work known as managing, but they differ in the degree of authority and responsibility they entail. The president of the company is responsible for the whole state of the business, its present and its future. You are responsible only for that part of it which has to do with budgeting. You may be said to be equally managers, but to occupy different levels of authority and responsibility within management.

LEVELS OF MANAGEMENT

It will be easier to see what managers at various levels within a business want from a budget if we consider these management levels in more detail.

In your company or in mine, there are workers. They may be clerks, factory laborers, professional or technical workers, and the like. As a rule, they work in groups. Every group has a boss, a supervisor, a chief clerk, foreman, or whatever he may be called. This boss is a member of the 'production level' of management. He has the job of physically overseeing and directing the day to day work of the group.

For example, Minneapolis-Honeywell has an assembly plant in downtown Minneapolis. If you get on an elevator in that building and ride up to an assembly floor, you'll see an assembly line. The line is made up of operators working at benches, each doing a small part of the job of making a finished control device. Somewhere in the room, you'll see a few men at desks. They are assistant foremen and foremen, part of this 'production level' of management. If you go to the third floor, you'll find an office marked 'Superintendent'. He is the manager who is in charge of the whole assembly plant, the highest man in its 'production level' of management.

If you go out to our plant on Fourth Avenue South, you'll see other offices on its fifth floor. These are offices of another level of management. the Factory Manager, the Manager of Procurement-Planning, and the Divisional Comptroller, who are members of the 'operating level' of management. They take broad policies and translate them into plans for profitable operation; that is, they 'operate' the business of production. Then, there is the executive suite on another floor. There you'll find offices of the administrative management--the President, vice presidents, and officers of the Company. Finally, you'll see the 'Board Room' where the directors, who are the 'top' management, meet

NOW TO DEFINE "BUDGET"

Your company may be set up differently, but by looking at it and asking questions, you should be able to recognize the different management levels in it. You also should be able to recognize your own level and the levels of the people to whom you give budgets. It should also

become apparent to you very quickly that a budget which is useful to one level can be a poor tool for another. By defining the term, 'budget', we should be able to find the cause.

All of us are accustomed to calling a budget a 'tool', But unlike a punch press or an adding machine, it measures action-words and figures on paper that record certain decisions which people have made. The decisions were:

1. Who - would do - what
2. How much could be spent to do it

Presumably, the people who made these decisions also use the budget as a tool to see how well their decisions are put into practice.

The budget has one other important characteristic as a paper tool. It equates all of the activities of the business to dollars and cents. It takes people (perhaps thousands of them), their work, material, and machines; the customers and the products; in short, all of the flesh and blood of the enterprise, and assigns them a dollar-and-cent value. You won't find "Joe Smith" anywhere in the budget, although you may find an entry called 'direct labor' and a figure which could be $50,000. Somewhere in the figure and the entry is Joe Smith. The reason we do this to Joe Smith is so that we can relate all of the 'Joe Smiths' and their work to a dollar-and-cent profit level which the company must make if it is to live and grow.

This, then, leads us to our definition of a budget. A budget is a tool for expressing everything about the business in dollar-and-cent terms so that people can manage the work of the enterprise in relation to the profit which must be made.

A BUDGET FOR EACH LEVEL

Now, let us summarize what has been developed thus far. First, the term 'management' actually means the people at a number of levels of the business who have the jobs of managing the work of others. Second, the budget is a tool for them--a way to relate their work to the over-all profitability of the firm. Every manager or 'level of management' wants a budget which helps him do a better job of contributing to profitable operation. From here on we will consider some of the ways you can give him such a budget.

You start by recognizing that every level of management, in fact every manager, lives in a world which differs from your own. Each of us, therefore, attaches different degrees of importance to an event. For example, the power failed several weeks ago at our downtown assembly plant. A thousand people lost a day's work, and our production schedules fell behind. Our budgets, of course, were affected. The production level of management, the foremen and the superintendent, were tremendously concerned, but I doubt that the President of the Company has heard about it, even to this day.

Because no two levels see things exactly alike, a manager may see in a situation the need for a new machine. He buys it, and it is delivered. Then, the employee looks at it. He sees a strange new object which changes the routine of his job, and he does not agree that there is need for it. He completely fails to understand the manager's enthusiasm, but he attempts to adjust to the machine and makes a half-hearted try. When he fails, the manager gets dictatorial and starts giving orders. The orders arouse the employee's resentment, and before long, it may be that either the employee or the new machine will have to go.

If you, as a budget director, take time to find exactly what people need, prepare everyone affected for changes, and take time to explain the whys and wherefores, you will save yourself comparable experiences. But this will force you to form a new habit, the habit of looking at everything from the other man's point of view. You must act instinctively with the awareness that he will not see things as you do, yet is convinced of the 'right-ness' of his view. Further, you, as much as he, will be satisfied that yours is the really correct view.

MAKING BUDGETS EFFECTIVE

Nevertheless, you must, to be a good budget administrator, cultivate the habit of questioning even your own point of view so that you begin to see things as they really are--not in the way which you or someone else wants to see them. As you cultivate this habit, you must concentrate on constantly doubting your own opinions, become aware of your own 'habit focus', and continually question what you see and hear. Until your budgets reflects things as they are, they are not likely to be effective tools are management.

The big question is, "How do you make budgets effective as tools for management?"

The secret is not in the figures, the projections, or the mathematics. It is in getting their acceptance, level by level, down to and including the man on the machine.

This brings me to some remarks on effective managing as well as a couple of descriptions for ways of managing which I saw recently in an article by Dr. Arthur Holmes, Professor of Psychology at the University of Florida.

Doctor Holmes' article describes two common methods of dealing with people, or approaches to management. He calls them the 'stockyard' and the 'facilitating' approaches and says that you will choose the one which fits your notion of what people are like.

The farmer, he says, uses the 'stockyard' approach when he goes out to get the cows up for milking at the end of the day. He closes all the gates he doesn't want livestock to go through. Then he annoys the herd by irritating or prodding the cows and drives them along the path he has chosen for them.

People who administer budgets in our business world use the 'stockyard' approach all too often, and while it works well with cows, it breaks down many times with human beings. Humans, you see, are smarter than cattle, and they're all too likely to jump the fences, open gates we never knew existed, or in general refuse to budge when we want them to.

Furthermore, the 'stockyard' approach to a budget requires that someone knew exactly the right path for the others to follow. This makes the budget man responsible for everything. He must be making decisions constantly, and he must know the 'right' answers. He cannot fail. This requirement makes his position tremendously insecure and keeps him in a perpetual state of anxiety.

The 'stockyard' approach also has a bad effect on the people who are managed or led. It creates an attitude of dependence and reluctance to take responsible action. It also tends to provoke resentment because people don't like to be forced, even if it's done in a kindly way. Whenever it provokes resentment, this may turn to anger, and at the first opportunity the people will break loose.

BUDGETING IS A JOINT EFFORT

The facilitating approach to administration and budgeting, on the other hand, begins with the assumption that the people of the group are jointly looking for solutions to problems. This, in turn, makes the leader's job one of 'facilitating' the process of finding solutions. He can function best with an attitude which can be summarized as,

"Let's go at it together, through conferences and discussions." He is allowed to share his responsibility, and this makes communication easier. Over a period of time, both he and the others become aware that they have mutual need for each other's services. This approach probably will give you slower results than you would get from the 'stockyard' one, but in the long run your results will be more effective because it will encourage and produce new ideas. You won't have to depend just on your own. You're more likely to get better answers because the creative energy of more minds will be focused on your problems.

At the same time, the 'facilitating' approach doesn't require you as a manager or a budget director to give up your own personality or thinking. It only reminds you constantly that you must not over-value your own importance at the expense of getting the job done; and it guards you against what may be called the 'worship of objectivity'. This 'worship of objectivity' can lead to a great many frustrations when your preparing and administering budgets. You've undoubtedly already found that when a question arises, and the people on both sides become annoyed and resentful, someone cries, "Get the facts!"

The man who says this acts on an erroneous notion; that is, that people are behaving according to the facts. Actually, people seldom behave according to the facts, or more precisely, the facts as we ourselves see them. We have already said that everyone sees the facts somewhat differently, and everyone behaves on the basis of what he conceives to be the facts. In looking at human behavior, we must remember always that in the actions people take, they are not responding to the fact-as-it-is.

SEEING BUDGETS AS OTHERS SEE THEM

If a department head thinks that your budget places an unfair burden on him, it matters little whether the burden is or is not unfair. He will react as if it were. Then, if you, as budget director, tell him with facts and figures that you can prove that he is wrong, you will prove, as far as he is concerned, only that you do not have the ability to see the facts as he sees them. You will be far wiser and he far happier if you can bring him into a conference with other people who must bear the burden imposed by the budget. In the conference, you, as budget administrator, facilitate discussion by the group directed toward discovering a way to divide the burden, a way which everyone in the group will feel is more equitable.

If the department head who first complained, along with the others of the group, finds a better way, they have given you valuable service. If they, with your best help, cannot discover a better way, they will have convinced themselves as you never could that the burden is not unfair.

Now, perhaps these ideas will be clearer if I tell you how we have tried and used this facilitating approach on our budgeting problems in the Minneapolis Division of Minneapolis-Honeywell.

Some years ago, our administrative and highest levels of management saw that the company faced dangerous cost problems. Our sales were growing fast, and our sales divisions set new records regularly. Nevertheless, our profit margin was dropping. We were meeting more and more able competition.

Our highest management could have done several things to keep costs from forcing us into a most unhealthy operating position. One would have been to tell everyone in the company, "You will hold the line. You must do things this way. You can't buy a box of pencils if it isn't in the budget we're giving you; and when the budget says pencils must cost no more than four cents each, we mean exactly that. If you pay four and a half cents, you're fired."

This would have been a 'stockyard' approach to budgeting, and it would have required someone to exert absolute control. Instead, our management chose the facilitating approach. It kept asking the operating management for answers, and finally the administrative and the operating levels of management agreed together that the problem was complex and needed work by many people.

THE VALUE OF COOPERATION

So, a great many people began to make contributions. Market Research said that it would begin to forecast sales months, even years, in advance. The Production Planning Department volunteered two major contributions as well as a great many which were relatively less far-reaching. First, it agreed to base production schedules on the sales rate forecasts and issue them months in advance. Second, it asked approval from higher management to schedule constant rates of production instead of raising production rates in the busy season and cutting them in slack periods. To accomplish this, the administrative management would have to approve increases of substantial size in our finished stock inventory so that during slack periods we would build for inventory and in busy seasons ship from inventory. The administrative management asked for cost studies before it agreed. The cost studies pointed one way and the level schedule became an important factor in planning costs.

Our accounting departments prepared data, made special studies to give all of us better information, and refined their methods of recording and reporting costs.

At the same time, we assigned a man full time to 'expense forecasting'. He and I talked repeatedly with managers at all levels of our Minneapolis Division factory. We asked them in detail about the costs of their departments. They showed us why the cost reports weren't giving them effective control tools, and they told us what reports they needed. After some months, we began monthly sessions with foremen and superintendents, showing them how they could plan their spending a month or more in advance, and they began to do so. Every month we went over the planned and actual expenses and tracked down the reasons for variance. Ideas came out of these conferences, and the foremen and superintendents began to want to make the ideas work because they had a hand in creating them.

You will be interested to know that we did not call our program a budget. Budgets had been tried before and failed because the production level of management had neither understood nor wanted them. So this time we tried the same thing but called it 'planning for profit,' and we helped the production management build a program which it believed would work.

Looking back, I am struck by the realization that our big fight was against pressures which might have forced us into a 'stockyard' approach. The foremen and the superintendents tried again and again to make higher levels of management set out specific budget goals.

"Set a figure," they said, "and we'll work within it." This was contrary to the basic principle with which we started; that is, budgets, like a tree, must grow from the bottom up. They said repeatedly, "Let the boss set the objective. It's his job to tell us what we must accomplish and our job to do it. Set figures for us to shoot at."

In the light of our professed objective there was only one answer, "We don't know what your goals should be, but you do. You're the people who know what your costs are. We just ask you to set the best goals you can. Use your experience and knowledge and tell us what your

costs should be."

The administrative and operating levels needed a guide to tell them when the best wasn't good enough. We got this by translating our planned production and cost figures into a 'factory profit and loss statement'. It showed the 'factory profit' level before general and administrative, selling, engineering and research, taxes, and other costs were deducted. It compared closely with the gross profit on the usual profit and loss statement. Operating and administrative management could look at the percent of 'factory profit' as a guide when it had to approve a monthly 'profit plan' or budget.

With this as a guide, the operating management often said to a foreman or superintendent, "That's not quite good enough. Can't you do a little better?"

They would go back and refigure their plans. Usually they would hit close to the profit figure we needed, and before long, they began to set goals we wouldn't have dared order them to shoot at a few months earlier.

At the beginning of the year, we said, "Your 1954 job of profit planning was terrific. You set and reached goals which none of us would have dreamed of in 1953; but the competition is tougher. In 1955 we'll have to do still more."

We showed them the consolidated plan for the year which had been worked up from their own forecasts, and we showed them what profit the factory would have to make if the company were to grow and improve. Then we explained the many things that the factory profit had to cover: taxes, administrative, sales, engineering and research costs, and dividends to shareholders.

The first quarter of 1955 showed that they were continuing to improve.

Since our 'Planning for Profit' program has been in use in the Minneapolis Division factory, our foremen and superintendents have squeezed thousands of non-productive dollars out of their budgets. Further, they haven't done it all at once, which might have raised a question. They have showed a trend of steady, gradual improvement. I believe that this success comes because the budget program made use of the 'facilitating' approach. They are making their budgets work because they find them efficient tools for cost management.

EXPANSION OF THE BUDGET PROGRAM

Today, we are extending this kind of budgeting to home office areas not covered and to factories in other cities, and we are careful to use the 'facilitating' approach at all times--relying on conferences, suggestions, and help. When production level people say that a budget report doesn't help them, we ask them to tell us what they need. Then we try to work out systems which will be useful tools. When a man comes up with an idea on improving our budgeting methods, we listen to him critically, not just politely, and before we accept or reject his ideas, we ask him to talk them out with a lot of people. Often we find that he's right and a valuable addition can be made to our budget system. Thus our methods are constantly being restudied and changed by the people (to borrow a political phrase) at the 'grassroots' level. For this reason our future budgets may look quite different from those we use now.

We think this is entirely right. Our job is to facilitate the development of tools for cost control by the appropriate levels of management and to help them work out exactly the right kind of tool they need. We supply creative advice and professional budget know-how, and in the facilitating process they learn from us and we from them. The net result is progress toward better management.

I am sold on the facilitating approach to budgeting. I doubt that it is ever necessary to cram a budget down a company's throat. Instead, we ought to find out what a company needs in order to be successful. Then we go to the levels of management with which we work and, if necessary, to their bosses, and find out clearly and realisticly what management expects in the way of a profit figure, Perhaps they won't know. In that case, find the answers for them and submit them for approval and action. Once you've got that profit figure, you go to the lower levels of management and say, "Our company needs this profit level if it's to be strong and growing. How can we work out ways to get it? Will you come up with the best plan you can develop for running your departments?"

When they come back with their plans, you add them up and work out the profit ratio in them. You probably will find the profit ratio is not quite good enough, so you call them back and show them the results. Ask them to improve as much as they humanly can.

The second time, you'll do better; and you keep working with them to give them the reports and measurements they need to improve still more. Above all, don't set their targets or tell them what their goals should be. Keep them aiming at the best they can humanly do. When they've done this, you'll do even better by themselves than the best you would have dared to predict.

Thus, you'll be finding out what management, your management in particular, wants from a budget. As you find this out, you are better able to create budgets which are useful tools. But remember this; if you are convinced that the 'facilitating' approach is the one to use:

Keep your superiors, and yourselves, from falling into mistakes of the 'stockyard' budgeting kind. Sell yourselves and everyone else on the use of 'facilitating' budgets.

This, I think, will give you new insight into the field of management, and you may expect eventually to enjoy the rewards which come to those who make their companies more pleasant and more profitable places to work.

NAMED TO RESEARCH COMMITTEE

Clarence C. Benedict, a member of the Northern New Jersey Chapter, NSBB, has accepted appointment by E. G. (Buck) Mauck, National President, as a member of Duey Borst's Research Committee. Mr. Benedict is controller with the Okonite Company in Passaic, transferring last year from the Nordberg Manufacturing Company, Milwaukee. Recently he was discussion leader of an American Management Association workshop seminar on "Establishing Budget Systems".

ACCEPTS NEW POSITION

Mr. Harold Katzelnick, of the Cincinnati Chapter has been appointed Controller of the Railway Supply & Manufacturing Co., Cincinnati.

EVANSVILLE CHAPTER PLANS ADVANCE

Mr. Martin F. Matz, with H. Fendrich Inc., Evansville, Indiana, is working on the formation of a Chapter of NSBB in that city, according to word from Hal Mason and Everett Yount.

A CONSTANT REMINDER OF THE COST OF "FRINGE BENEFITS"

By: Charles E. Hooten

Staff Accountant in charge of Budgets, American Viscose Corp., Front Royal, Va.

Do you cringe at the mention of "Fringe Benefits"? Many budget men do, and so does top management. That's why it's so important to bring this item up out of the cellar, and examine it in clear daylight, as are all other expenses.

In some budget programs an attempt is made to keep various levels of management informed as to what the budgeted expenses are for the operations which they control. Our system provides the individuals concerned with a budget sheet for each item of expense which contains details of the expense calculations and the estimated total expense on an annual basis. Sample copies of the data provided appear in the accompanying exhibits.

FORM 101 REV. 1	PLANT	DEPARTMENT CHARGED	ACCOUNT NO.	ANNUAL AMOUNT
FACTORY EXPENSE BUDGET	FRONT ROYAL	SPINNING-GENERAL	4303-16	$ 18,470
ITEM		SUPERSEDED SHEET NO.	SHEET NO.	CHANGE INCREASE
LABOR - Jet Room Attendant		900-11	900-12	$ 650
		DATE SUPERSEDED SHEET	DATE EFFECTIVE	CHANGE DECREASE
		10/14/51	12/2/51	
DERIVATION			BUDGET RATE AND UNIT	ACTIVITY FACTOR
BUDGET: 1 man per shift; 6 man hours per day provided by lunch relief			30 Man Hours	Day

WAGE RATE

Jet Room Man F3-1 $ 1.71

ESTIMATED ANNUAL EXPENSE

(365-5) x 30 x $1.71 = $ 18,468

Number of employees earning above $3,000 — 5
Earnings of employees earning under $3,000 — None
Number of employees earning above $3,600 — 5
Earnings of employees earning under $3,600 — None

REASON FOR CHANGE

Wage and Salary Rates:
General increase effective 12/2/51. (C-1)

—EXHIBIT "A"—

FORM 101 REV. 1	PLANT	DEPARTMENT CHARGED	ACCOUNT NO.	ANNUAL AMOUNT
FACTORY EXPENSE BUDGET	FRONT ROYAL	SPINNING-GENERAL	3905-16	$ 1,265
ITEM		SUPERSEDED SHEET NO.	SHEET NO.	CHANGE INCREASE
HOLIDAY PREMIUM PAY		905-A-14	905-A-15	$ 40
		DATE SUPERSEDED SHEET	DATE EFFECTIVE	CHANGE DECREASE
		10/14/51	12/2/51	
DERIVATION			BUDGET RATE AND UNIT	ACTIVITY FACTOR
BUDGET: It is anticipated that this department will operate on 4 holidays.			If Worked: $ 218.49	Holiday On Week Day (Excl. Sat. and Sun.)
			$ 76.95	Sat. & Sun.
			If Not Worked: $ 145.66	Week Day (Excl. Sat. and Sun.)
			$ 51.30	Sat. & Sun.

BASIS:	Day	Week Day (Excl. Sat. and Sun.)
4303-16	$ 51.30	
4403-16		$ 36.96
4306-16		31.00
4405-16		26.40
	$ 51.30	$ 94.36

ESTIMATED ANNUAL EXPENSE

4 x $218.49 = $ 874
2 x $145.66 = 291
$1,165

Holiday Premium Pay of employees earning under $3,000-$505
Holiday Premium Pay of employees earning under $3,600-$755

REASON FOR CHANGE

Wage and Salary Rates:
General increase effective 12/2/51. (C-7)

—EXHIBIT "B"—

FORM 101 REV. 1	PLANT	DEPARTMENT CHARGED	ACCOUNT NO.	ANNUAL AMOUNT
FACTORY EXPENSE BUDGET	FRONT ROYAL	SPINNING-GENERAL	3909-16	$ 2,105
ITEM		SUPERSEDED SHEET NO.	SHEET NO.	CHANGE INCREASE
VACATION PAY - Spinning General		906-22	906-23	$ 95
		DATE SUPERSEDED SHEET	DATE EFFECTIVE	CHANGE DECREASE
		12/2/51	1/1/52	
DERIVATION			BUDGET RATE AND UNIT	ACTIVITY FACTOR
BUDGET:			4.788%	Budgeted Hourly Pay Roll Dollars

ESTIMATED ANNUAL EXPENSE

Est. Annual Wages - $ 42,815
Est. Holiday Premium Pay - 1,165
$ 43,980

$43,980 x .04788 = $ 2,106

Vacation Pay of employees earning under $3,000 - $ 805
Vacation Pay of employees earning under $3,600 - $1,200

REASON FOR CHANGE

Miscellaneous:
Increase in Vacation Pay accrual rate from 4.572% to 4.788% effective 1/1/52. (F-6)

--EXHIBIT "C"--

Separate sheets are prepared for each expense classification as established in the corporation Code of Accounts. These sheets are grouped departmentally so that the budgeted expense for each of these operating entities is available. As a result, in each departmental section, there are separate sheets for such items as Holiday Premium Pay, Vacation Pay, Payroll Taxes (F.I.C.A. and Unemployment Ins.) which are separated into individual expense classifications in our Code of Accounts. The estimated annual cost of these "fringe benefits" is therefore available for each department but the amount applicable to each separate labor account

FORM 101 REV. 1	PLANT	DEPARTMENT CHARGED	ACCOUNT NO.	ANNUAL AMOUNT
FACTORY EXPENSE BUDGET	FRONT ROYAL	SPINNING-GENERAL	4109-16 4110-16	$ 1,003
ITEM		SUPERSEDED SHEET NO.	SHEET NO.	CHANGE INCREASE
PAY ROLL TAX - Spinning General		907-20	907-21	$ 20
		DATE SUPERSEDED SHEET	DATE EFFECTIVE	CHANGE DECREASE
		10/14/51	12/2/51	
DERIVATION			BUDGET RATE AND UNIT	ACTIVITY FACTOR
BUDGET: F.I.C.A.			1.5%	Budgeted Pay Roll Dollars (Incl. Vac. Pay)
Unemployment Insurance			.8%	"

ESTIMATED ANNUAL EXPENSE	$ 3,000	$ 3,600
Earnings of employees above: (7.5 x $3,120)	$ 23,400	
(5 x $3,745)		$ 18,725
Earnings of employees under:	16,345	24,365
Holiday Premium Pay of employees earning less than:	505	755
Vacation Pay of employees earning less than:	770	1,125
	$ 41,020	$ 44,970

F.I.C.A. $44,970 x .015 = $ 675
Unemp. Ins. $41,020 x .008 = 328
$1,003

REASON FOR CHANGE

Wage and Salary Rates:
General increase effective 12/2/51. (C-8)

—EXHIBIT "D"—

is not readily available.

To constantly remind operating management of the cost of the major "fringe benefits" the following procedure and forms are suggested. First of all, in order to spread the cost of these benefits, they should be placed on an accrual basis. Average percentages based upon past experience and known changes are then used to make charges into the operating accounts each month. Annually or at any other designated periods the amounts so accrued can then be compared with the actual expense incurred and the necessary adjustments made accordingly. Then a budget sheet as shown in Exhibit F can be used. If it is necessary to know the total budget for any of the fringe benefits a summary sheet can be used.

FACTORY EXPENSE BUDGET	PLANT: FRONT ROYAL	DEPARTMENT CHARGED: SPINNING-GENERAL	ACCOUNT NO.: UNCONTROLLABLE EXPENSE	ANNUAL AMOUNT: $ 6,455
ITEM: EXPENSES NOT DIRECTLY CONTROLLABLE BY FRONT ROYAL PLANT PERSONNEL		SUPERSEDES SHEET NO.: 909-16	SHEET NO.: 909-17	CHANGE INCREASE: $ 2,860
		DATE SUPERSEDED SHEET: 12/2/51	DATE EFFECTIVE: 1/1/52	CHANGE DECREASE

DERIVATION	BUDGET RATE AND UNIT	ACTIVITY FACTOR
The following items of expense are chargeable to Spinning-General but are not controllable by Front Royal plant personnel. Arbitrarily, we will assume that the budgeted and actual expenses are identical.		
ESTIMATED ANNUAL EXPENSE		
3941-16 Current service annuity expense	$ 2,945	
3942-16 Premium for employees' insurance	1,450	
4103-16 Insurance	60	
4106-16 Property taxes	150	
4107-16 Depreciation	2,510	
	$ 6,455	
REASON FOR CHANGE		
Miscellaneous:		
(1) Increase in employees covered by Pension Plan. 3941-16 (F-9)	Increase	$ 915
(2) To reflect current experience. 3942-16 (F-10)	Increase	835
(3) To reflect current Depreciation schedule. 4107-16 (F-16)	Increase	1,110
	Total Increase	$2,860

--EXHIBIT "E"--

Spinning General

ITEM		NO.	RATE			
LABOR Jet Wash Attendant		4303-16			$ 550	$ 18,470
	HOL. PAY	3905-16			10	305
	VAC. PAY	3909-16	4.79%		35	905
	F.I.C.A.	4109-16	1.44%		10	805
	UNEM. INS.	4110-16	0.7%		5	140
	ANNUITY	3941-16	4.88%		35	905
	EMP. INS.	3942-16	3.15%		80	600
		TOTAL			$ 765	$ 21,770

DERIVATION		
	SUPERSEDES SHEET NO.: 900-11	SHEET NO.: 900-12
	DATE SUPERSEDED: 10/24/51	DATE EFFECTIVE: 12/8/51
	BUDGET RATE & UNIT	ACTIVITY FACTOR
BUDGET 1 Man Per Shift 6 Man Hours per Day provided by lunch relief	30 Man Hours	Day Worked
WAGE RATE Jet Room Man PR-1 $1.71		

ESTIMATED ANNUAL EXPENSE

Annual Amount	Hol. Pay	Vac. Pay 4.79%	F.I.C.A. 1.44%	Unem. Ins. 0.7%	Ann. 4.88%	Emp. Ins. 3.15%
360 x 30 x $1.71 = $18,470	$805	$905	$805	$140	$905	$600

REASON FOR CHANGE

Wage and Salary Rates:
General increase effective 12/8/51.

—EXHIBIT "F"—

This summary can be arranged departmentally or by any other grouping desired.

As changes are made to a particular labor function the cost of the change as well as the new estimated annual amount is available on one sheet.

TECHNIQUES OF BUDGET FOLLOW-UP

(Continued from Page 8)

reviewed by individual location. A monthly Gross Profit Report is prepared by location, by departments to provide current information.

The Cost of Sales Budget also includes our warehouse, trucking and manufacturing budgets. Follow-up on these budgets consists of personal contact with the department head and/or the officer responsible for the department, plus a written report to the committee. Here again a substantial part of our variance may be due to a step-up in store opening dates or some similar cause.

OPERATING EXPENSES – Follow-up and policing in this category is a joint project of the Retail Operations Staff, the Budget Department, and the Expense Control Committee. These three distinct groups combine their efforts to survey and interpret budget variances, but almost all effort to improve our budget performance flows out through the Retail Operations staff because they are primarily charged with the creation of these expenditures and the resulting variances.

ADMINISTRATIVE EXPENSE BUDGETS – Budget follow-up on this group is the same as our general follow-up procedure of personal contact with the department head by the Budget Department, and a detailed written report to the Expense Control Committee.

To briefly summarize which group participates in follow-up on the various budgets -- The Budget Department as a liaison party to this procedure participates to a large extent in all of this follow-up, but even this department stresses Operating and Administrative Budgets as indicated in this chart.

Finance Committee	Capital Budget Long Range Budget Balance Sheet Budget
Budgetary Control Committee	Operating Budgets Over-all Budget picture
Expense Control Committee	Operating Budgets Administrative Budgets
Retail Operations Staff	Operating Budgets
Budget Department	Operating Budgets Administrative Budgets

SEEKS INFORMATION ON DISTRIBUTION OF ADVERTISING AND SALES PROMOTION COSTS

In a recent letter to the National Society For Business Budgeting, Mr. Charles R. Clary, Budget Manager for American Safety Razor Corporation, Staunton, Virginia, asks: "Have you, in recent years, made any studies or obtained any data on methods various companies use to apportion Advertising Media and/or Sales Promotion expense to districts or territories?".

Mr. Clary explains that his company has recently decided to broaden the scope and detail of their financial statements to include district and territorial reports. "This presents some difficult problems", he writes, "particularly in determining an equitable formula to distribute Advertising and Sales Promotion expense to the various territories".

Examination of our NSBB publications reveals virtually no data on this particular topic. We are therefore presenting the question to the membership at large –– can YOU provide some hints and tips to Mr. Clary? Write to him direct, we're sure he'll be glad to hear of anything helpful.

NEED COST REDUCTION? HERE'S HOW TO START!

(Continued from Page 12)

Burden Cost

Now for the third area of manufacturing cost to be reduced - that of manufacturing expense or burden cost.

This is the one with which management usually is most concerned. This is the one which seems to get out of control most often, and is perhaps the hardest to analyze and to take corrective action.

All of the fringe benefits for direct labor, all indirect labor and all service department costs as well as supplies and fixed charges are included under this caption. So where do we start?

One of the best approaches to cost reduction in this area is to set up a variable budget. This is merely the setting up in advance of a predetermined sum for each expense item for each predetermined level of operation and then comparing actual expense against the budgeted amount.

It is very important that whenever a budget item involves manpower, the number of people be shown as well as the total dollar value. These include indirect labor items such as supervision, clerical help, material handling, repair and maintenance, toolroom inspection, firemen, storekeepers, receiving and shipping, janitorial and others.

Why the number of people as well as dollar amounts? Because this is the language that shop supervision understands. And it is more important to have the right number of people at each level of operation than it is to try to insist on the exact dollar amount. To set up such an indirect manpower budget takes a great deal of analysis and some definite soul searching with shop supervision in order to find out where people can be eliminated when production is reduced.

A good technique to help determine these figures is to make a comprehensive work sampling study on all indirect people in this category. This gives an idea of how much of the time is productively utilized and can be used as a basis for determining the proper number of people of each type actually needed at each level of operation.

WORK SAMPLING STUDIES

In one midwestern company work sampling studies were made on all people working as material handlers, stock clerks, timekeepers, die setters, maintenance men, inspectors and toolroom personnel in an attempt to find out what percentage of the day they were productively occupied. This study furnished valuable clues for combination of jobs and proper staffing of these activities with a consequent savings in indirect labor cost of many thousands of dollars. And since it was so simple, new studies could easily be taken whenever the level of activity changed.

But what about service department costs such as production control, industrial engineering, purchasing, personnel and cost departments? These are really tough since they remain relatively fixed with changes in the rate of operations. The trick is to know just when the reductions or increases should take place. If this is not studied and incorporated in the variable budget, increases in personnel will take place far too readily and decreases will practically never be made.

The way to get a service manpower budget by departments for each level of activity is to determine the amount of work necessary for each department at each level of activity and the number of people required to do that work.

This depends on the type of system used and the volume of paperwork or transactions processed within the system.

A few companies have made intensive studies of their service department systems and procedures. They have compiled a list of reports and functions which they will do without at very low levels of activity. But the more usual plan is to reduce people only when the number of transactions or amount of work decreases in a department. This should be thought through in advance and a manpower budget established as a result.

MEASURING CLERICAL WORK

It is also possible to measure and standardize clerical work. The first approach should be to analyze all reports and clerical work performed with a view to consolidating or eliminating as much as possible. Then it is possible to set standards on a good number of jobs and to measure the performance of people against those standards. It is, of course, imperative to take action once improper performance is discovered.

Many companies are using clerical standards programs at the present time. In one medium company, some ten people maintain the standards for 400 clerical employees. This company has saved some 20% in clerical expense in addition to paying the cost of the program.

Another field which is becoming increasingly subject to measurement is that of maintenance. Traditionally, this has been a field which many thought was impossible to measure. But simplified maintenance standards have been developed which together with preplanning of work, scheduling of jobs and proper cost allocation, has reduced maintenance expense in some cases as much as 40%

Some small companies who feel that a standard program would not be applicable for their particular size of company, have taken work sampling studies to determine the effectiveness at which their maintenance people are working. In some cases, maintenance people have average as low as 50% productive time with helpers as low as 35% productive time. With proper supervision, good work standards, proper combinations of jobs, and preplanning of work, this figure has been increased to 75% or 80%.

SUMMARY

In summary then, here are some suggestions for getting cost reduction in your company.

1. Analyze your own past performance and the performance of your competitors, if possible, and set a goal for net profit before taxes.

2. In setting this goal, work with the operating people in setting target figures for each major category of expense and in developing specific proposals for reducing individual cost items. You can give them a lot of suggestions as a result of your analysis. But if they are not sold and if they do not want to take action, none will result.

3. After developing these figures with them, and going back for additional reductions, if necessary, you can consolidate the figures into a projected profit and loss statement. This is backed up by specific proposals for attaining the goals.

4. Finally, constant reporting and follow-up is necessary to make certain that each of the proposed programs

NEW MEMBERS

New membership certificates have been issued, in the past few weeks, to quite a few men, bringing the membership in N.S.B.B. to a new record high for every such certificate issued. The following have been welcomed into the Society:

EARLE G. MILLER, Budget Director, Parker Pen Company, Janesville, Wisconsin;
RUSSELL F. ROSE, Assistant Comptroller, Emerson Electric Manufacturing Co., Kirkwood, Missouri;
GEORGE J. TUZO, Supervisor of Budgets and Payroll, Kearney & Trecker Corp., Plainfield, N.J.;
ROBERT W. CLAYTON, Assistant to the Controller, Permacel Tape Corp., New Brunswick, N.J.;
DAVID J. GUSTAFSON, Supervisor Factory Reporting, Minneapolis-Honeywell Regulator Co., Minneapolis, Minn.;
C. J. OTT, Budget Coordinator, Diamond Alkali Company, Cleveland, Ohio;
STANLEY A. BAUM, Controller, Allied Radio Corp., Chicago, Ills.;
ROBERT W. KOZEL, Budget Director, American Phenolic Corporation, Chicago, Ills.;
ELLIS M. REEVES, Controller, National Dairy Council, Chicago, Ills.;
GEORGE H. THOMAS, Budget Manager, New Holland Machine Co., Lancaster, Penn.;
G. RALPH GUTHRIE JR., Budget Manager, ITE Circuit Breaker Co., Philadelphia, Pa.;
LEONARD V. AUTREY, Senior Budget Accountant, New Holland Machine Div. of Sperry-Rand Corp., New Holland, Pennsylvania.
GEORGE W. JACKSON, Corporate Budget Director Electric Storage Battery Co., Oreland, Penn.;
ANTHONY J. SCHWAB, Budget Performance Analyst, New Holland Machine Div. of Sperry-Rand Corp., Bareville, Penn.
JOHN H. MC CARTHY, Budget supervisor, P. Lorillard Company, Louisville, Ky.
G. CARL VOCK, Budget assistant, the Richardson Company, Bellwood, Illinois.
ANDREW N. TZAKIS, Consultant, Lindberg Engineering Co., Chicago, Illinois.
JOHN A. GINTHER, Assistant division controller, Bausch & Lomb Optical Co., Hammond, Indiana.
CHARLES D. ORMSBY, Chief analyst, General foods Corp., White Plains, New York.
CHARLES G. JENCKES, Budget manager, Ethicon, Inc., Fanwood, New Jersey.
EDWARD BUCKWALD, Operating control manager, Popular Merchandise Co., Clifton, New Jersey.
IRVING NACHT, Budget manager, Ronson Corporation, Newark, New Jersey.
HARRY M. KEITH, Controller, Ronson Corporation, Newark, New Jersey.
RALPH W. LUCKAMAN, Chief general accountant, A. P. Green Firebrick Co., St. Louis, Missouri.
ROBERT H. KERLEY, Analyst, Allstate Insurance Co., Indianapolis, Indiana.

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is followed through until the goals are realized.

This approach to costs reduction demands intelligent analysis, the ultimate in securing cooperation from the sales, manufacturing, purchasing, and engineering departments, and the drive and determination to see that the program is carried through.

Top management support for such a program is absolutely necessary. But unless the financial man takes it upon himself to make the program work, it is very likely to fail.

Here's an opportunity to make a great contribution to the growth and success of your own company. Will you accept the challenge?

NSBB GROWING WITH A BANG! THREE NEW CHAPTERS ENTER FOLD

Canton, Ohio Chapter Receives Charter; San Francisco, and San Diego California Next.

Activities of the Chapter Formation committee exploded in a rush of results, in recent weeks, and it looks like three new chapters have been organized. One charter has been issued, one is scheduled for June, and the third is probable in the near future.

The new chapter chartered is Canton, Ohio, where Mr. Earl Long, Borg-Warner Corp., Wooster, Ohio becomes president, after having sparked the organization work for the new chapter. Hal Mason, Director in charge of Chapter Formation, and Everett Yount, the Midwestern Area chairman, worked right along with Mr. Long in getting this new group under way.

Charter members of this chapter are: Mr. Long (who has been a member-at-large); John R. Hornung, Detroit, Mich. (also formerly a member-at-large); DeWitt C. Cox, Budget Supervisor, Timken Roller Bearing Co., North Canton, O.; Donald S. Kearney, plant accountant, Mardigian Corp., Wooster, O.; C. H. Miller, Jr., treasurer, Morgan Engineering Co., Alliance, O.; Ward M. Tuttle, assistant production manager, Alliance Machine Co., Alliance, O.; Richard J. Uhl, chief accountant, Borg-Warner Corp., Wooster, O.; R. E. Wagenhals, manager of sales forecasting, Timken Roller Bearing Co., Canton, O.; Carl L. Williams, assistant controller, The Hoover Co., North Canton, O. Additional news on this new group, their officers, new members, etc., will follow in later issues.

The Canton Charter was presented to them by Mel Aichholz, president of the Cincinnati Chapter, on Thursday, March 22, at Bender's Tavern in Canton. Mr. Everett Yount, Midwestern Area Chapter Formation Chairman, was also present. Mr. Aichholz is Controller and Budget Director for Bavarian Brewing Company.

TWO CALIFORNIA CHAPTERS

June 13th has been scheduled as the date for presentation of the Charter to the San Francisco chapter, with a national officer of NSBB on hand to do the honors. Mr. A. D. Moor, United Air Lines, San Francisco is the gentleman who spearheaded the organization work in that city, with the assistance of Mr. Hal Mason, and Ross Stevens, Chapter Formation chairman for the Pacific Coast area.

Mr. Moor reports that on January 25 a meeting attended by fifteen people representing thirteen companies outlined the objectives of the NSBB, and the outcome was decision to go ahead and organize a chapter. "We're small, but mighty", Mr. Moor reports. In February, the group outlined a program for monthly meetings, appointed key chairmen, and scheduled their Charter meeting for June 13, with a membership goal of 20 or 25 by that date.

Taking his responsibility as Pacific Coast Chapter Formation Chairman seriously, Ross Stevens has started groundwork on a San Diego Chapter. Mr. Stevens is with the Solar Aircraft Co. in San Diego. He has reported to Mr. Mason that a preliminary meeting took place early in March attended by eleven men representing six firms, who were unanimous in their desire to form a chapter of NSBB there. It is possible, he reports, they will be ready for Charter prior to the May National Conference. A charter membership of 30 is their goal.

The entire membership of NSBB welcomes these new chapters into the fold, and recognizes with appreciation the efforts of the men responsible for organization of each group. "See you in Cleveland!"

CHAPTER NEWS

GLEANED FROM CHAPTER NEWSLETTERS

CHICAGO. In March, the chapter heard Dr. Robert K. Burns, executive officer of the Industrial Relations Center of the University of Chicago, speak on "The Management Team––its Selection and Development". Dr. Burns, who is currently engaged in research on employe and organization morale, presented an extremely enlightening talk.

PHILADELPHIA. "The Tools of Budgeting" was the subject of the March meeting, with Mr. George Barge serving as discussion leader. The Chapter is discussing plans for its annual June Social meeting. Gus Largomarsino is chairman. Candidates for offices are to be announced at the May meeting.

NORTH NEW JERSEY. New officers will be elected at the April meeting. The following slate has been presented for the approval of the membership: President, Dr. A. P. Hewlett, vice-president of Esso Research & Engineering Company; first vice-president, C. C. Benedict; vice-president, Morgan Cooper; treasurer, Stanley C. Koney; secretary, George J. Lawrence; council members, John H. Garland, Karl N. Ehricke and Ernest Wallach. A talk on "The Budget Director and Electronic Computors" by Mr. I. Gardoff of the Monroe Calculating Machine Co., will be presented. This comparatively new chapter issues the "newsiest" newsletters of all - congratulations to the editor.

ST. LOUIS. Mr. Carl A. Nagel, budget director of Alton Box Board Company, Alton, Ills., spoke on the subject "Presenting a Budget in Management Language", at the March meeting. This group now has nineteen members and is growing, with additional applications now in the hands of their admissions committee.

LOUISVILLE. This chapter is providing speakers for other area NSBB chapter meetings, as a part of the speakers-exchange program with Cincinnati and Indianapolis. In March, president C. E. Manteuffel traveled to Cincinnati to talk on "Forecasting for Planned Profit". In April, Dick Palmer was scheduled to address the Indianapolis group on "The Break-Even Point". The Louisville chapter's March meeting featured a talk by Samuel Alexander, assistant superintendent of the Jefferson County Board of Education.

TWIN CITIES. Plans for the May meeting, which will be an informal meeting on current budgeting problems, are being formulated. Each member of the chapter has been asked to submit at least one topic for discussion at the meeting.

NEW YORK. A list of officers has been prepared for presentation to the membership, as follows: President, Raymond R. Serenbetz; First vice-president, Frank Guergone; Vice-president, Jack L. Selkowitz; Secretary, Wilson R. Haines; Treasurer, Paul W. Madeira. "Management planning and Control", with Mr. R. B. Lewis, vice-president and controller of Olin Mathieson Chemical Corporation as speaker, featured the March meeting.

BRIDGEPORT. A round-table forum discussion on "Analysis and Explanation of Variances", with Mr. J. Paul Gavell of the H. O. Canfield Company as leader, was presented in March.

CINCINNATI. The first annual dinner meeting of the Cincinnati NSBB chapter with students and members of the faculty of three area universities, was a great success, in February. Attending were thirty students from University of Cincinnati, Xavier University and Miami University (Oxford, Ohio), along with several faculty members. A panel of NSBB members presented talks on the general theme of budgeting as a career, with Mr. Ed Walter, Controller of Kemper-Thomas as moderator. The students came through with a number of questions, indicating their interest in budgeting as a career. This first meeting was held at the University of Cincinnati; it is planned to rotate the meetings each year. President Mel Aichholz has announced that Gene Middlekamp, who has been serving as Newsletter editor, has resigned that position, as he has recently transferred to Dayton, Ohio, where he is assistant to the Controller of the Harris-Seybold Company. Mr. Aichholz further reports some favorable attention to his efforts to arouse interest in NSBB in Dayton, and in Columbus...

CHICAGO. The group scheduled a talk by Dr. William T. Jerome III, Director of Executive Controls Program and Army Comptrollership School at Syracuse University, for April. His topic: "How Budgeting Appears to a Free Lancer", This Chapter continues its steady growth, having added ten new members in the past two months.

INDIANAPOLIS. The April meeting features an exchange speaker from Louisville--Richard Palmer, works auditor of Louisville Works, International Harvester Company, on "Budgeting and the Break-Even Point". There were over 30 members and guests at their March meeting. Two new members (Dan Conlin, budget accountant, Eli Lilly & Co., and Charles Cox, controller, Acme-Goodrich Inc.) brings the chapter membership to nearly 40, a nice growth this year.

TWIN CITIES. "Building a Sales Budget" was the subject for this group's March meeting on the 29th, with Mr. Dudley Ruch, manager of Groceries and Refrigerated Foods, Market Research, of Pillsbury Mills, Inc., as speaker.

CLEVELAND. James Dawson, vice-president of National City Bank of Cleveland, made his third appearance as speaker for a Cleveland chapter meeting, addressing the group on March 26 on the subject of "Forecast for 1956", plus a review of his last year's 1955 forecast. Needless to say, the coming convention occupies most of the time and attention of Cleveland members!

"BUDGET ALCOVE" IN MILWAUKEE PUBLIC LIBRARY MAINTAINED BY NSBB CHAPTER

The Milwaukee Chapter, N.S.B.B. has a very interesting project which they recommend to other chapters: a "Library Project". Lee Miller heads the committee in charge of this activity, and describes the project as follows:

"This year, our Chapter made an appropriation of $25 to the Milwaukee Public Library for the purpose of establishing a "Budget Alcove". Under this plan the Library will submit a list of suggested books for purchase and we will make selections from the list. This is a rather common practice of professional groups in Milwaukee

"There is no assurance that we will continue to do this in the future; but, if our first year's experience is satisfactory, I would expect that it would be a continuing project. The library has indicated to us that they would like to start by purchasing all of the publications issued by N.S.B.B."

The Library has accordingly been provided with a copy of all available back issues of the Society's Annals, Technical Notes, and Business Budgeting Magazine. They will receive a copy of each Business Budgeting Magazine as issued, in the future.

The National Officers of N.S.B.B. certainly endorse the project, and encourage other Chapters to investigate the project in their city.

The University of Illinois Library, Urbana, has also requested a copy of each issue of Business Budgeting Magazine for their technical section, and they have accordingly been added to the mailing list.

LETTERS TO THE EDITOR

Several letters have been received commenting on the article in our February issue, "What Factory Management Expects From Budgeting", by Frederick J. Port. We have selected as representative of the comments, the following letter:

Editor,
Business Budgeting:

"As you predict in your opening remarks to Mr. Fredrick J. Port's article, much of what he has to say is controversial. Unfortunately I missed the meeting when he spoke to our chapter.

"I feel Mr. Port is completely off base when he suggests overtime premium should be charged to the Sales Department when caused by faulty Sales forecasting. This would not aid any efforts to reduce the expense and would in fact make it more difficult. Actually he renders most of his article quite ineffective because he suggests that the other divisions be penalized for less than perfect forecasting, but that his division be given additional allowance as credit for not being able to make a good forecast.

"Certainly overtime premium must be accounted for by function and where it occurs if anything is to be done to control it. Any attempt to charge it by reason for occurence, would soon have much of it scattered over service departments and other non-operating departments as well as other divisions.

"I submit Mr. Port has a good point to debate with his Sales Department, not his Budgeting Department. Rather than drag Budgeting into the middle of this argument I suggest he work with Sales to increase the efficiency of their forecasting and perhaps schedule his plant in such a way as to leave room for these overtime contingencies as they occur."

W. G. Schmidt
HAMILTON MANUFACTURING COMPANY
Two Rivers, Wisconsin.

WGS: gk

And now here is a letter typical of a few which agree with what Mr. Port had to say, his right to say it, and hope others have more to say on the same subject---for our own good!

Dear Editor:

This is with respect to Frederick J. Port's article, What Factory Management Expects From Budgeting, appearing in the February 1956 issue of Business Budgeting.

I found it to be all that your lead line indicated but read it without squirming because he emphasizes a point that I have been preaching for years, namely, that a budget executive, in addition to being capable of coordinating and interpreting facts and figures, must be cognizant of human relations and capable of understanding and welding into a singleness of purpose the viewpoints of many individuals making up management.

One of the dangers of a group of people forming an organization built upon common interests is to encase themselves in a hard shell and acquire a feeling that the industrial world revolves around them. This can and should be avoided through our meetings and publications by listening and reading the opinions and experiences of others even though they may sometimes be on subjects that first appear to be unrelated to our particular field.

Somewhere there is a common ground, let's find it by hearing more about ourselves from others.

C. H. Eckelkamp
Combustion Engineering, Inc.
New York 16, New York

The following letter refers to the question asked by Emil Snodgrass in his letter which appeared in the last issue. We're not sure who the real writer is, but we're working on a clue . . . it was received in the same envelope as the preceding letter!

"Dear Editor:

I think Emil Snodgrass has raised a very good question. In our company on Monday and Wednesday they post all debits in the column nearest the window and on Tuesday and Thursday in the column nearest the blank wall. Friday is optional so that the totals for the week are the same in each column.

In the Accounts Receivable department they have no windows so all original entries are first prepared on colored paper by the head bookkeeper. He is real smart and says that all amounts on blue paper are debits and posted in the left hand column and all amounts on pink paper are credits and go in the right hand column. (It's a good thing I don't work in that department--I'M color blind!)

I wonder if Emil could tell me what a trial balance is? Does it have anything to do with juggling figures? I never was good at balancing ANYthing!"

(Signed) O. Sodum

"MODERN OFFICE PROCEDURE" MAGAZINE COOPERATING WITH NSBB ON PUBLICITY

Mr. C. H. Eckelkamp, national publicity director, NSBB, has announced arrangements with the publishers of "Modern Office Procedure", a new magazine with wide circulation to executives throughout the nation, to include information about the National Society For Business Budgeting activities in their "Calendar of Association Meetings" column.

An effort will be made to include in this magazine information about each Chapter's meetings, giving the date, scheduled program, and so forth. The magazine is also being invited to include some publicity about the coming Cleveland National Conference in its next issue.

If you haven't yet seen a copy of "Modern Office Procedure", it is published by Industrial Publishing Corp., 1240 Ontario Street, Cleveland. The alertness of Mr. A. G. Avant, Chicago Chapter publicity Chairman, and the cooperation of Sam Allender, Cleveland Conference publicity chairman, has resulted in a tie-in with this magazine for NSBB publicity.

ABOUT OUR AUTHORS

FRED W. ANDERSON is manager of Budgets and Accounting at the Brush Electronics Company division of Clevite Corporation. Before coming to Brush he was with the Firestone Tire & Rubber Co., and prior to that was an auditor for Baumann, Finney & Co. in Chicago. He is a member of the Cleveland Chapter of N.A.C.A. as well as the Cleveland Chapter of N.S.B.B.

HENRY G. LYKKEN, JR., holds degrees in Business and Mechanical Engineering from the University of Minnesota. He has been with Durkee-Atwood Co., National Battery Co. and Montgomery Ward. He served four years as a Lieutenant in Naval Ordnance. He has been with Minneapolis-Honeywell since 1951. He is a member of NACA and the Minnesota Society of Professional Engineers.

CHARLES E. HOOTEN is a graduate of Duke University where he majored in Business Administration and Accounting. He served five years in Anti-aircraft artillery where he attained the rank of major. He has been with American Viscose since 1939. Charlie has other talents, too. . .he sings in the choir at Calvary Episcopal Church. He is president of the Board of Managers of Warren Memorial Hospital, and a member of Masonic Lodge.

A. L. RUDELL is a graduate of the University of Minnesota, where he majored in accounting. He is Chief Cost Accountant of the Minneapolis Division of Minneapolis-Honeywell Regulator Company.

JOSEPH W. MALONE holds a degree of Bachelor of Business Administration from the University of Minnesota. He has been with the internal auditing and budget departments of Minneapolis-Moline and is presently assistant to the Production Control manager in the company's Hopkins plant.

WILLIAM E. DWYER holds a degree of Bachelor of Business Administration from the University of Minnesota. He has worked in the accounting and treasury departments of Munsingwear, Inc., and is presently assistant Treasurer. He is a charter member of the Twin Cities Chapter, NSBB.

CHARLES W. JONES is a graduate of St. Thomas college. He has been with Red Owl Stores, Inc. since his graduation, and is presently Budget Manager.

KENNETH L. BLOCK is an Associate of the A. T. Kearney & Company, Chicago, management consultants, where he has been since 1948, serving primarily as a consultant on problems of profit improvement and top management planning and control. He is the author of several articles on the subject and has conducted AMA seminars on this topic. Before joining the Kearney company, he was instructor in the School of Business Administration, University of Michigan, where he taught courses in Production and Business Management. He was a radio and electronics officer in the Army Air Corps during the war, and previous to that worked as Industrial Engineer for Chevrolet Aviation Engine Co. and Minneapolis-Honeywell Regulator Company. He received his BA degree from University of Minnesota, Bachelor of Science degree in Industrial Engineering from MIT, and Master of Business Administration from University of Michigan. He is a registered professional engineer, and was elected a Certified Public Accountant in Illinois in 1952.

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(All of the above, courtesy Mel Aichholz, president of the Cincinnati Chapter, NSBB.)

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PLAN NOW TO ATTEND

1956 N.S.B.B. NATIONAL CONFERENCE

Cleveland, Ohio – May 24-25, 1956

CONFERENCE THEME – "OPERATION PROFIT"

General Chairman

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talks – discussions

by

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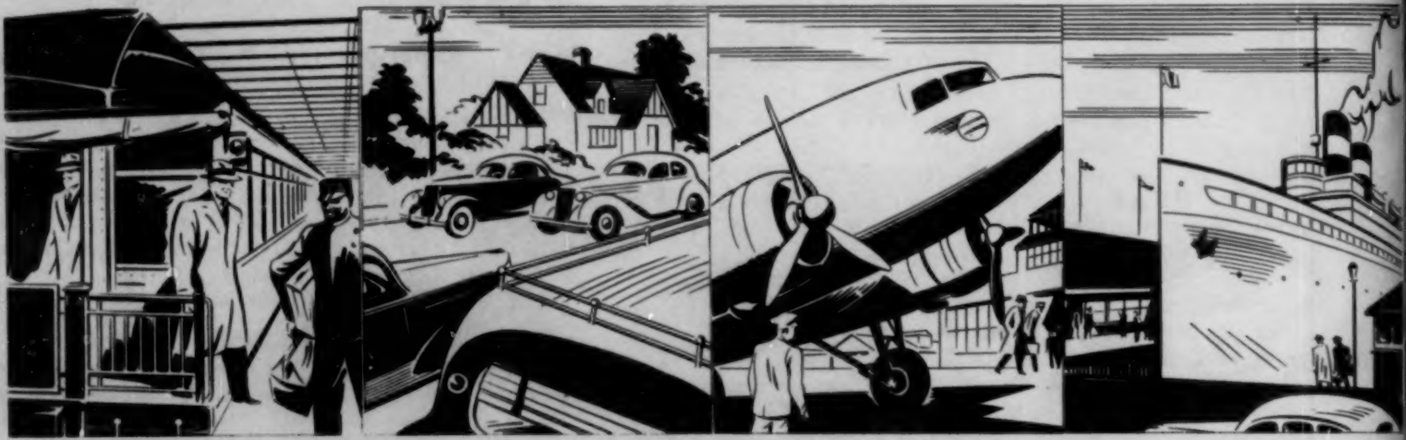
Registration Chairman:
LEONARD G. DUETEMEYER
Cost Analysis Supervisor, Ford Motor Company

Arrangements Chairman:
RUSSELL O. HEGNESS
Financial Statistics Supervisor, U.S. Steel Corp.

Financial Chairman:
FRANCIS J. BRENNAN
Mgr. Budget Dept., Central National Bank

Come To Cleveland

1956 N.S.B.B. NATIONAL CONFERENCE



PLAN NOW TO ATTEND

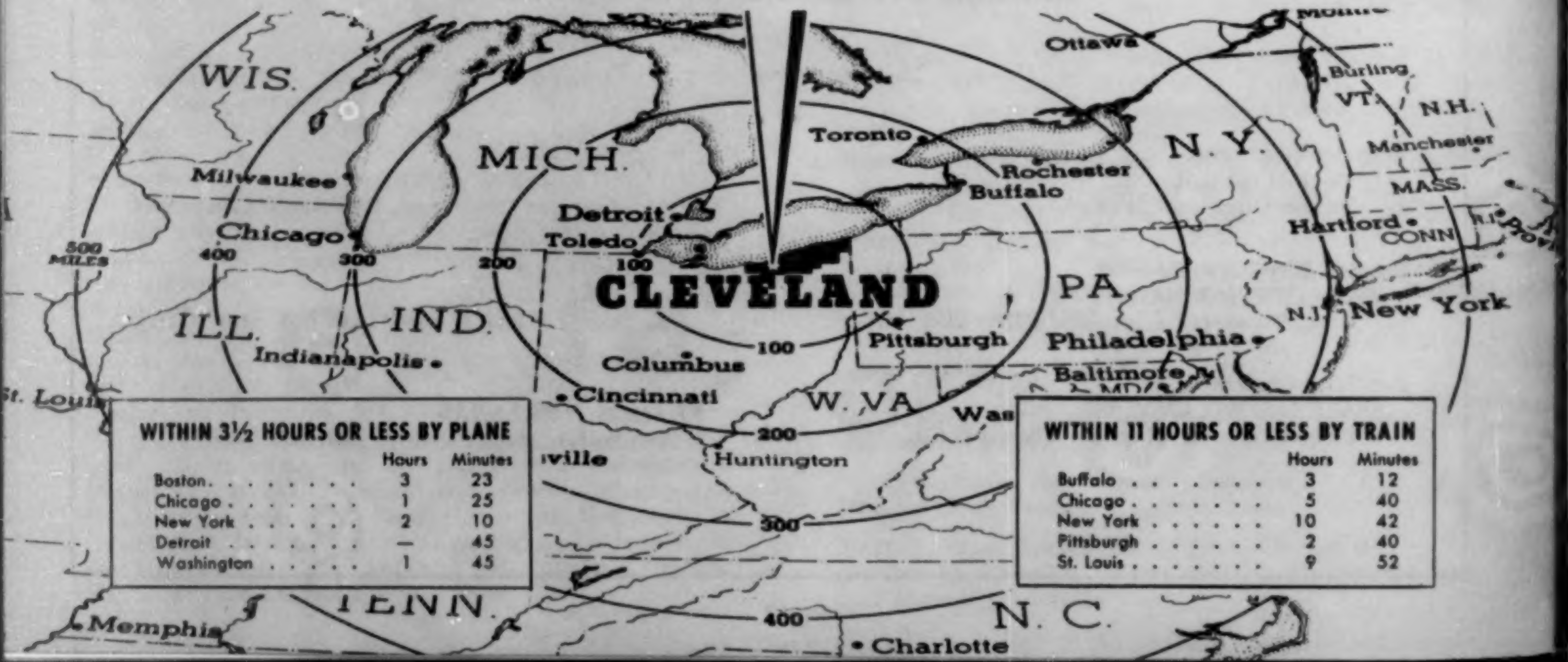
BY TRAIN — HIGHWAY, AIR OR WATER

Cleveland, Ohio — May 24-25, 1956

CONFERENCE THEME — "OPERATION PROFIT"

Plan now to attend the convention in Cleveland. With the city's central location, you'll find that Cleveland is easy to get to from practically any point in the country. It is on the main lines of transportation, and can be reached by rail, air, motor or water.

Cleveland . . . the city easy to get to . . . is also the city easy to get around in. You'll find that any point in the city is easily accessible from the downtown district. Transportation facilities are of the best, and wide, uncongested thoroughfares make driving through the city most enjoyable. So . . . COME TO CLEVELAND!



WITHIN 3½ HOURS OR LESS BY PLANE

	Hours	Minutes
Boston	3	23
Chicago	1	25
New York	2	10
Detroit	—	45
Washington	1	45

WITHIN 11 HOURS OR LESS BY TRAIN

	Hours	Minutes
Buffalo	3	12
Chicago	5	40
New York	10	42
Pittsburgh	2	40
St. Louis	9	52